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**ECONOMIC PREPARATION OF THE ENVIRONMENT:
A SELECTIVE EMPIRICAL ANALYSIS OF CHINESE
INVESTMENT IN THE PHILIPPINES**

by

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June 2017

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**ECONOMIC PREPARATION OF THE ENVIRONMENT: A SELECTIVE
EMPIRICAL ANALYSIS OF CHINESE INVESTMENT IN THE PHILIPPINES**

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ABSTRACT

Over the past decade, the People's Republic of China has increasingly used its economic might as a means of influence to pursue grand strategic objectives that some scholars believe are aimed at countering U.S. presence and influence in the Asia-Pacific region. This thesis examines two aspects of Chinese economic strategy, foreign direct investment and development aid, in the context of the Philippines, which represents the primary U.S. foothold in the region. Using geospatial, link, and social network analysis techniques to examine a data set of Chinese investments in the Philippines from 2006 to 2016, this thesis attempts to answer the following question: What evidence does China's investment in the Philippines contribute to the understanding of China's grand strategic objectives? We find that these Chinese investments support and expand China's ability to monitor and control South China Sea access points, and provide interpersonal channels for Chinese influence over Philippine decision-making through the cultivation of allies within the economic arena.

We recommend that U.S. diplomatic and defense officials view these and other Chinese international investments as a type of economic preparation of the environment designed to establish access/forward presence and build strategic relationships for future military and/or diplomatic exploitation.

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LIST OF ACRONYMS AND ABBREVIATIONS

AIIB	Asia Infrastructure Investment Bank
AIS	Automated Identification System
ASEAN	Association of Southeast Asian Nations
BCDA	Bases and Conversion Development Authority
C4SIR	command, control, computers, communication, intelligence, surveillance, and reconnaissance
CCCC	China Communications Construction Company
CEEC	China Energy Engineering
CGGC	China Gezhouba Group
CTG	China Three Gorges Corporation
CCP	Chinese Communist Party
CDB	Chinese Development Bank
CIC	China Investment Corporation
CREC	China Railway Engineering Company
EDCA	U.S.-Philippines Enhanced Defense Cooperation Agreement
ExIm Bank	Export-Import Bank of China
FDI	foreign direct investment
FYP	Five-Year Plan
GDP	gross domestic product
GoPH	Government of the Philippines
MFA	Chinese Ministry of Foreign Affairs
MOF	Chinese Ministry of Finance
MOFCOM	Chinese Ministry of Commerce
NBN	Philippine National Broadband Network
NBN-ZTE	Philippine National Broadband Network and Zhongxing Telecommunication
NDRC	National Development and Reform Commission
OBOR	One Belt, One Road
OECD	Organization for Economic Co-operation and Development
ODI	outward direct investment

PCCC	Power Construction Corporation of China
PD	peaceful development
PE	preparation of the environment
PH	Republic of the Philippines
PLA	People's Liberation Army
PRC	People's Republic of China
SAFE	State Administration for Foreign Exchange
SGCC	State Grid Corporation of China
SINOSURE	China Export and Credit Insurance Corporation
SNA	social network analysis
SOE	state owned enterprise
UNCLOS	United Nations Convention on the Law of the Sea
UNCTAD	UN Commission on Trade and Development
USD	U.S. dollars
USPACOM	United States Pacific Command
USSOF	United States Special Operations Forces
ZTE	Zhongxing Telecommunication

EXECUTIVE SUMMARY

There remains a contentious debate among both Chinese and Western scholars regarding the objectives—and even existence—of a coherent Chinese grand strategy. This conceptual divide makes it difficult for policy makers and military planners to accurately interpret the motivations behind and effects of China’s international investment activity. This thesis attempts to mitigate some of that uncertainty through exploratory research into China’s investment in the Philippines¹ by asking the following research question: What evidence does China’s investment in the Philippines contribute to the understanding of China’s grand strategy objectives?

A. METHODOLOGY

Over the course of this thesis, we examine five sub-questions utilizing the following methodology. We identified China’s strategic approach to the Philippines through the examination of China’s “Going Out” and Peaceful Development policies, 13th Five-Year Plan, and “One Belt, One Road” strategy. In addition, the research discovered unique characteristics of Chinese investment through an analysis of China’s policy framework that governs the international activity of its commercial actors. In addition, using geospatial analysis, we identified the geopolitical effects of Chinese investments by depicting them in relation to global shipping lanes and Chinese control points in the South China Sea. Finally, we determined the relational effects of Chinese investments by operationalizing Baviera’s theory that Chinese economic power translates to influence via “successful cultivation of allies among members of the Philippine political elite with whom it has shared preferences,”² through the application of link analysis and the social network analysis metrics of degree centrality and local clustering coefficient.

¹ The researchers chose Philippines as a case study because it has historically been a strong ally of the United States and represents an important element of American power and influence in Asia. Thus, if China is attempting to utilize its economic might to counter U.S. presence and influence in Asia, the Philippines represents a “most-likely” target for economic statecraft.

² Aileen Baviera, “The Domestic Mediations of China’s Influence in the Philippines,” in *Rising China’s Influence in Developing Asia*, ed. Evelyn Goh (Oxford University Press, 2016), 127.

B. DATA

Our data set contains 41 individual instances of Chinese outward direct investment, construction contracting, and service provision in the Philippines spanning the time period from 2006 to 2016. The bulk of the data came from Dr. Derek Scissors's Global China Investment Tracker, while the remainder was gleaned from official Government of the Philippines announcements and Philippine media reports. For each instance of investment, we collected geospatial data on the implementing location of the investment and relational data consisting of the relationships or ties connecting the various Chinese and Philippine actors participating in or facilitating each investment.

C. SUMMARY OF KEY FINDINGS

- China's strategy toward the Philippines is mostly consistent with the strategy Beijing applies to the Southeast Asian region as a whole—it aggressively pursues its territorial interests in the South China Sea while also broadcasting clear signals of goodwill and cooperation through pledges of joint development and mutual prosperity.
- China's strategic approach to the Philippines has shifted based on the policy decisions of Philippine administrations—it has applied tactics to punish Philippine resistance to Chinese actions in the South China Sea (Aquino administration 2010–2016) and has offered significant economic benefits when Philippine administrations have adopted pro-Chinese foreign policy positions (Arroyo administration 2001–2010 and Duterte administration 2016–present).
- China's policy framework allows the Chinese state to motivate, direct, and incentivize the overseas investment activity of its commercial actors.
- There is a high degree of organizational connectivity between the Chinese Communist Party and the corporate leadership of the state owned enterprises (SOEs) that do the bulk of the overseas investment.
- The majority of Chinese economic activity in the Philippines has consisted of construction contracting and infrastructure projects.
- There have been few documented cases of Chinese companies merging with, acquiring, or partnering with Philippine firms; yet, Chinese commercial actors own a 40 percent stake in the Philippine national power grid and a controlling stake in the Philippines' largest ferry operator/shipping company, 2GO Group.

- The bulk of Chinese economic activity in the Philippines can be traced back to Chinese state owned parent companies (i.e., SOEs).
- The vast majority of the executed and proposed investments conform to Philippine national development plans and priorities.
- Chinese investments are located where one might expect them to be based on commercial, ecological, and host country development priority factors.
- China's four port development investments can potentially provide a platform for maritime monitoring and information collection that will fill a significant gap in China's situational awareness of the South China Sea (see Figure1).
- Relational analysis identified the following Philippine entities and individuals as pathways for potential Chinese influence in the Philippines: National Grid Corporation of the Philippines, 2GO Group, R-II Building Group, Federation of Filipino-Chinese Chambers of Commerce and Industry, Philippine Chamber of Commerce and Industry, Ayala Corporation, Francis Chua, and Reghis Romero II.

D. IMPLICATIONS

China's international investments provide benefits and opportunities undetected by the macroeconomic, quantitative, and regional analytic techniques currently being applied in the fields of Chinese foreign policy and economic statecraft research. These benefits and opportunities might be considered secondary effects, but they will continue to remain undetected until scholars adjust their level of analysis and begin examining these investments at the micro or instance level.

The benefits and opportunities created by these investments bear resemblance to the conditions U.S. special operations forces (SOF) attempt to achieve through preparation of the environment activities in the shaping phase of an operation. This suggests that U.S. defense planners should potentially change the way they frame, or view, Chinese investment activities within their geographic areas of interest by categorizing them as an economic form of preparation of the environment.

E. RECOMMENDATIONS

Micro-level research into Chinese international investment activity using visual analytic techniques should be expanded beyond the scope of the Philippines. Based upon

their regional orientation and organizational capacity, the U.S. geographic combatant commands are ideal candidates to sponsor and/or spearhead this continued research.

In addition, U.S. Army Civil Affairs forces deployed around the world should begin capturing data on Chinese investment activities in their host countries as part of their civil information management key task. This data collection should focus documenting the geospatial location of such investments, identifying the key actors involved, and ascertaining those actors' connections to the host government.

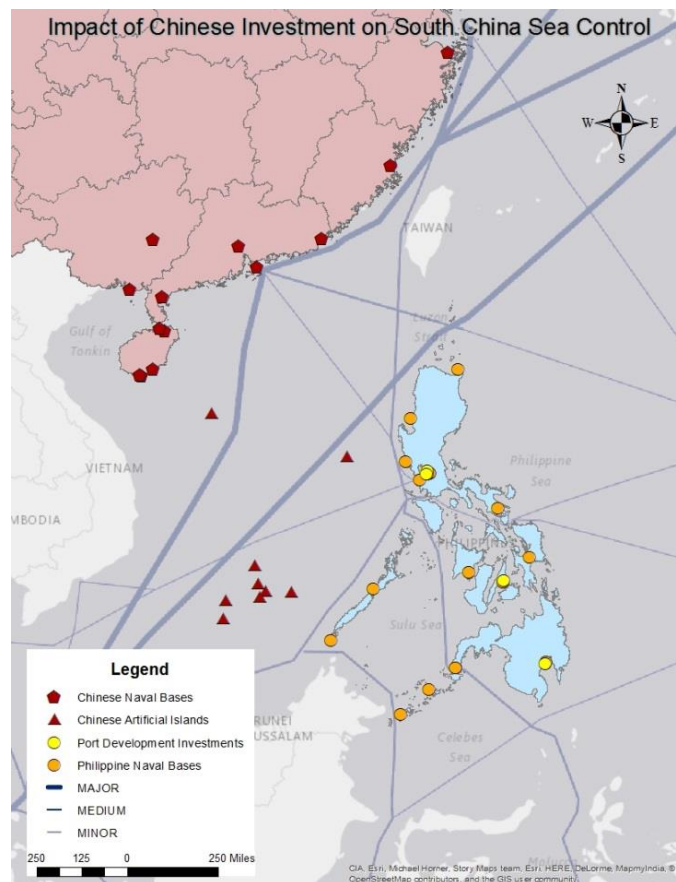


Figure 1. Impact of Chinese Investments in the Philippines on South China Sea Control³

³ Adapted from ARCGIS, "Global Shipping Routes," April 2013, <http://www.arcgis.com/home/item.html?id=12c0789207e64714b9545ad30fca1633>

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I. INTRODUCTION AND LITERATURE REVIEW

Chinese strategic and cultural tradition places a high value on deception and concealment of decision-making processes in order to thwart adversaries' efforts to predict Chinese behavior.¹ Despite the public release of several official policy and strategy documents by the People's Republic of China (PRC), there remains a contentious debate among both Chinese and Western scholars regarding the objectives and even existence of a coherent Chinese grand strategy. The course of this debate has taken on two forms, one over the components of grand strategy and the other over the objectives of that grand strategy.

This thesis takes the latter form of debate at its conceptual starting point. In this viewpoint, scholars and analysts assume the existence of a Chinese grand strategy but differ in their assessments of what the grand strategy's objective is and how aggressive China will be in pursuing it. On this academic battlefield, three main camps have formed based on their assessment of the threat level to the current world order. On the left is the PRC's official position of Peaceful Development or a "China Dream" in pursuit of a "harmonious society."² In this camp, China is not a threat but will protect its rights in the community of nations. The second camp, represented by authors such as Jacqueline Newmyer Deal, sees China's rise as a form of strategic competition in a non-zero sum game.³ Finally, on the right is the "China threat" camp, personified by experts like Michael Pillsbury, who argues that China's "Hundred Year Marathon" grand strategy is aimed at replacing the United States as the world's superpower by 2049.⁴

¹ Jacqueline Newmyer Deal, "China's Approach to Strategy and Long-Term Competition," in *Competitive Strategies for the 21st Century: Theory, History, and Practice*, ed. Thomas G. Mahnken (Stanford, CA: Stanford University Press, 2012), 161.

² Information Office of the State Council, People's Republic of China, *China's Peaceful Development* (Beijing: Information Office of the State Council, 2011), http://english.gov.cn/archive/white_paper/2014/09/09/content_281474986284646.htm.

³ Deal, "China's Approach to Strategy," 148.

⁴ Michael Pillsbury, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (New York: Henry Holt and Co., 2015).

Central to this debate is the primacy of the Chinese economy, both as a consumer around which Chinese grand strategy has been built and as the primary tool for achieving Chinese foreign policy objectives around the world. As defined by William Norris, the state's manipulation of international economic activities for strategic purposes is known as economic statecraft.⁵ However, literature concerning China's implementation of economic statecraft is at the macro level. This suggests that additional empirical research is needed at the micro (commercial actor) level to better understand how China is using its economic element of national power in the context of grand strategy.

A. IMPORTANCE

One result of this contentious debate over Chinese grand strategy is manifested by the uncertainty with which foreign policy makers, military planners, and the mass media view Chinese economic activity in the international arena. The bulk of this economic activity has come in the form of foreign direct investment and international construction contracts totaling nearly \$1.5 trillion worldwide since 2005.⁶ Muddying the waters of this seemingly positive international flood of Chinese capital are numerous reports of exploitive energy and raw material investments in developing countries,⁷ attainment of sensitive technologies through mergers and acquisitions,⁸ and a general lack of governmental and financial transparency.⁹

At its extremes, this uncertainty can lead to belief in a sinister, ulterior motive behind every Chinese investment or blindness to a cleverly disguised grand strategy. The implications of basing decisions on these extremes range from provoking conflict with

⁵ William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca, NY: Cornell University Press, 2016), 3.

⁶ Derek Scissors, "China Global Investment Tracker," American Enterprise Institute, accessed October 15, 2016, <https://www.aei.org/china-global-investment-tracker/>.

⁷ Ivar Kolstad and Arne Wiig, "Better the Devil You Know? Chinese Foreign Direct Investment in Africa," *Journal of African Business* 12, no. 1 (2011): 31–50.

⁸ Jerker Hellström, *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implications* (Stockholm: FOI, Swedish Defence Research Agency, 2016), 28–30.

⁹ Peter Wood and Kerry Brown, *China ODI: Buying into the Global Economy* (XRG C-ODI Report) (Hong Kong: Exceptional Resources Group, 2009), http://www.xrg-china.com/bro/XRG_C-ODI_REPORT_October_2009_/XRG_C-ODI_REPORT_October_2009_.html, 38–39.

China and stifling a potentially beneficial member of the international community to being strategically unprepared to defend U.S. interests abroad. To navigate this uncertainty, U.S. policy makers and executors need greater clarity regarding the nature and objectives of Chinese economic activity abroad. Such clarity can only come from a detailed examination of empirical data at a micro level, namely the commercial deals and actors¹⁰ composing this barrage of Chinese investment.

This thesis attempts to reduce some of that uncertainty through exploratory research into Chinese economic statecraft vis-à-vis the Philippines over the past decade. It focuses on instances of Chinese investment, the role that commercial actors play in supporting Chinese foreign policy objectives, and the bilateral context within which these actors are operating. We believe the Philippines is an appropriate case study for several reasons. First, the Philippines is a historically strong ally of the United States and represents an important foothold of American power and influence in Asia. Second, China and the Philippines share overlapping maritime claims in the South China Sea, a divisive issue that defines the Sino-Philippine bilateral relationship, thus making the Philippines an attractive target for Chinese economic statecraft. Finally, as related by Theresa Carino, China and the Philippines share a long history of cultural and economic integration evident by the sizeable ethnic Chinese population in the Philippines and their disproportionately high dominance of the commercial sector.¹¹ Understanding the landscape of Chinese microeconomic activity in the Philippines will aid policy makers in identifying aspects that support the execution of economic statecraft, potentially clarify assertions regarding Chinese grand strategy, and assist policy makers in making resource allocation decisions.

¹⁰ In this instance, “actors” refer to any of the parties involved in the process of outward direct investment and includes businesses/corporations, governmental and non-governmental entities, banks/lending institutions, and individual persons.

¹¹ Theresa Chong Carino, *Chinese Big Business in the Philippines: Political Leadership and Change* (Singapore: Times Academic Press, 1998).

1. Research Question

In pursuit of these objectives, we conduct exploratory analysis in an attempt to answer the following question: what evidence does China's investment in the Philippines contribute to the understanding of China's grand strategic objectives?

2. The Way Ahead

In subsequent sections, we review the literature on Chinese grand strategy, economic statecraft, and the state of Sino-Philippine relations that led to this research question. Next, we break the question down and lay out our methodology for answering its component parts. We then provide an examination of official Chinese policies and strategies to parse out the PRC's objectives vis-à-vis the Philippines and establish the context within which Chinese commercial actors are operating. Next, we examine those aspects of Chinese outward direct investment assumed to carry security implications for the host country and compare those assertions against the empirical data of Chinese investment in the Philippines. Then, through the use of visual analytic tools, we examine the spatial and relational aspects of commercial activity between China and the Philippines with an emphasis on the commercial actors and linkages across organizational boundaries. Finally, we conclude with our key findings, implications for U.S. policy makers and executors, and recommendations for future research.

B. LITERATURE REVIEW

The scope of our research crossed many disciplinary lines ranging from international relations and economic statecraft theory to Philippine politics and financial capital flows. While our thesis touches on each of these topics tangentially, our primary contributions are to the literature on Chinese grand strategy, economic statecraft, and Sino-Philippine relations. First, by tracing Chinese strategies from the national, down to the regional and individual country levels (i.e., Philippines), we clarify how frequently cited concepts of Chinese strategy and influence actually unfold on the ground. Second, by focusing specifically on the "carrot" of Chinese international capital flows, we demonstrate how concepts of Chinese economic statecraft are actually implemented by its commercial actors. Finally, by examining the empirical data on Chinese investment in

the Philippines, we shed light on how these investments have impacted the Sino-Philippine relationship and produced secondary effects that impact Philippine politics and security. The following section provides a review of these fields of study, identifies gaps within the literature of each, and outlines how our research contributes to filling those voids.

1. Chinese Grand Strategy

Scholars have written extensively on the concept of Chinese grand strategy. In the literature on this subject, there is disagreement on whether or not China is pursuing a coherent grand strategy. One of the best arguments in favor of China having a grand strategy comes from the work of Michael Swaine and Ashley Tellis, who label it a “calculative strategy” of constrained maximization. They identify three Chinese national objectives/interests: preservation of domestic order, defense against external threats to sovereignty and territory, and attainment of geopolitical influence as a world power. To achieve this, they argue that China has employed the following policies: 1) non-ideological policy approach centered on economic growth, 2) a deliberate restraint on the use of military force coupled with military modernization and streamlining, and 3) expanded involvement in regional and global politics in order to secure asymmetric gains. Thus, Swaine and Tellis argue that China’s “calculative strategy” seems to be focused on expanding all elements of its national power as non-provocatively as possible to avoid a regional or global backlash that would hinder China’s rise.¹²

A second, popular argument in favor of China having a grand strategy comes from Michael Pillsbury. Harnessing the cynicism and underlying fears of the American public and defense establishment, Pillsbury outlines a secret Chinese strategy, dubbed the Hundred-Year Marathon, which aims to “replace the United States as the world superpower” by 2049. In the place of strategic ideas, Pillsbury argues that the Chinese are using lessons learned from the culturally and historically significant Warring States period that stretched from around 475 BC to unification under the Qin dynasty five

¹² Michael D. Swaine and Ashley J. Tellis, *Interpreting China’s Grand Strategy: Past, Present, and Future* (Santa Monica, CA: RAND, 2000), 97–150 (Chapter 4).

centuries later.¹³ These lessons are manifest in nine elements of Chinese grand strategy that stress asymmetry, secrecy, deception, and patience.

A third argument for grand strategy can be made around the Chinese government's official strategic position on Peaceful Development in pursuit of a harmonious world, best articulated by the 2011 white paper from the State Council of the People's Republic of China.¹⁴ In this argument, China's strategic objective is a harmonious world characterized by respect for sovereignty, mutually beneficial cooperation and economic development, and peaceful resolution of disputes through dialogue and mutual trust. In order to achieve this objective, China proposes to follow a policy of peaceful development centered on the ideas of scientific, independent, open, peaceful, cooperative, and common development. Recently, new ambitious economic initiatives, such as One Belt, One Road (OBOR) and the Asia Infrastructure Investment Bank (AIIB), have been considered by some as further evidence of an overarching Chinese strategy within the framework of peaceful development.

On the other side of the debate, Edward Luttwak contends that China does not, and cannot, possess a grand strategy due to fundamental paradoxes inherent in its rise. Luttwak argues that there is a certain logic in strategy, namely that China's rapid growth in power will necessarily evoke resistance by other states, which will inhibit that growth's linear progress. Therefore, it is paradoxical for China to pursue a simultaneous strategy of economic growth and military aggrandizement in a non-provocative fashion—the only correct grand strategy for China would be to contradict common sense and restrict military growth.¹⁵ In addition to this paradox, Luttwak also posits that China has “Great State Autism” (shared by the United States) characterized by a pronounced insensitivity to foreign perspectives. He argues this results in a highly ineffective decision-making process, wherein oversimplified realities are distorted to fit within

¹³ Pillsbury, *The Hundred-Year Marathon*, 31–32.

¹⁴ Information Office of the State Council, *China's Peaceful Development*.

¹⁵ Edward N. Luttwak, *The Rise of China Vs. the Logic of Strategy* (Cambridge, MA: Belknap Press of Harvard University Press, 2012), 5–6, 68.

internally generated expectations and perspectives.¹⁶ Thus, Luttwak posits that this “Great State Autism” prevents China from seeing that military aggrandizement resulting from rapid economic growth actually destabilizes and weakens its ability to develop grand strategy.

A second counterargument comes from Wang Jisi, China’s most prolific foreign policy expert. Wang contends that China, though searching, has still not found a successful grand strategy. His argument rests on the observations that the variety of conflicting viewpoints within the Chinese Communist Party (CCP) political elite has prevented consensus on what organizing principle should guide Chinese grand strategy. In a 2011 article in *Foreign Affairs*, Wang identifies two prevailing opinions as to what that organizing principle should be: 1) build the grand strategy around opposition to a primary threat (the United States) or 2) follow Deng Xiaoping’s advice to keep a low profile and bide one’s time before striking. Wang argues that both schools of thought are misguided and fail to adequately address all three of China’s core interests: sovereignty, security, and development.¹⁷

A final counterargument to the debate comes from Zhang Feng, who conducted a rigorous analysis of Chinese foreign policy since the 1980s and concluded that China did not have a premeditated grand strategy at any point during the past 30 years.¹⁸ As noted previously, Zhang employed a strict rubric for analysis defining grand strategy as the combination of a clear set of national interests plus strategic ideas on how to achieve them. Zhang noted that internal debates over these interests and strategic ideas occurred almost every 10 years resulting in discrete, corresponding shifts in policy. This paints the picture of a “learning” China as well as a “rising” China. Zhang also points to the lack of a world vision, or preference for an ideal international order, as a contributing factor to the failure to develop a grand strategy during this period.¹⁹

¹⁶ Ibid., 12–13.

¹⁷ Wang Jisi, “China’s Search for a Grand Strategy: A Rising Great Power Finds its Way,” *Foreign Affairs* 90, no. 2 (2011): 68–79.

¹⁸ Zhang Feng, “Rethinking China’s Grand Strategy: Beijing’s Evolving National Interests and Strategic Ideas in the Reform Era,” *International Politics* 49, no. 3 (2012): 337.

¹⁹ Ibid., 339.

For the purpose of this thesis, we adhere to the argument that China does in fact have a grand strategy that it applies in its foreign relations with Southeast Asian neighbors and other countries around the world. In assuming the existence of a Chinese grand strategy, we look to the PRC's own documents and statements on the subject as supporting evidence for this assumption, including the Peaceful Development policy, the "Going Out" strategy, economic initiatives like One Belt, One Road, and its five-year plans. Taken together, these policies imply a grand strategy that is focused on creating a stable regional environment for continued economic development, expanding PRC military capability and economic influence along its periphery, and cultivating domestic unity. Among the vast body of literature addressing the subject of Chinese grand strategy, there is a significant gap created by a preponderance of the authors focusing on this topic at a strictly theoretical realm. These experts have not looked for evidence of Chinese grand strategy at a more granular level, which is through case studies of Chinese action in individual countries. In fact, much of the literature only encompasses a regional or global dimension.

We contribute to filling this gap by specifically examining Chinese grand strategy in the context of the Philippines. As Chinese economic power expands and its foreign policy becomes more assertive—as we have noted previously—some experts like Michael Pillsbury warn that Beijing might seek to supplement the United States as the dominant power in Southeast Asia.²⁰ Similarly, Karen Bergerson warns that as China builds military force projection, it is also pursuing other non-military options in an attempt to erode America's strategic position in the region.²¹ With these claims in mind, we chose the Philippines as a most likely case, meaning that if China is truly employing a grand strategy or working to degrade U.S. influence, the Philippines is one country that it would likely target. Hence, this examination at the bilateral level has the ability to contribute to the debate at the grand strategy level.

²⁰ Pillsbury, *The Hundred-Year Marathon*, 10.

²¹ Karen Bergerson, *China's Efforts to Counter U.S. Forward Presence in the Asia Pacific* (Washington, DC: U.S.-China Economic Security Review and Commission, 2016), 3.

The Philippines merits examination for several reasons. First, as David Berteau and Michael Green explain, the Philippines is a strong ally of the United States, retains a mutual defense treaty with the United States, and represents an important element of American power and influence in Asia.²² Second, the Philippines have directly challenged Chinese territorial claims in the South China Sea making it an attractive target for coercion and/or influence. Third, as Carino notes, China and the Philippines share a long history of cultural and economic integration as evident by the sizeable ethnic Chinese population in the Philippines and their disproportionately high dominance of its commercial sector.²³ Beyond significant cultural ties, the Philippines and the remaining nations of Southeast Asia are considered by China to be “periphery countries.” As Zhu describes, this designation results in the region receiving greater attention from the PRC and helps further justify examining China’s economic activities within the context of the Philippines.²⁴

2. Implementation of Grand Strategy: The Economic Dimension

Within the context of grand strategy, this study also contributes to the literature on Chinese instruments of economic statecraft including outward direct investment (ODI), overseas construction projects, and international service provisions. All three of these instruments are facilitated by Chinese official development and economic assistance programs. We purposely avoid any examination of other instruments of Chinese national power, such as diplomatic, information, and military, to focus solely on the economic dimension. As with the literature covering grand strategy, there is a gap among the body of work dedicated to exploring the economic aspects of Chinese national power. This work remains largely at the macro level and lacks a country-specific application and examination of China’s use of economic tools. We fill this gap by translating Chinese

²² David J. Berteau and Michael J. Green, *U.S. Force Posture Strategy in the Asia Pacific Region: An Independent Assessment* (Washington, DC: Center for Strategic and International Studies, 2012), http://csis.org/files/publication/120814_FINAL_PACOM_optimized.pdf, 34–36.

²³ Theresa Chong Carino, *Chinese Big Business in the Philippines: Political Leadership and Change* (Singapore: Times Academic Press, 1998).

²⁴ Zhiqun Zhu, *China’s New Diplomacy: Rationale, Strategies and Significance* (Burlington, VT: Ashgate Publishing Limited, 2013), 173.

policies (Going Out, One Belt, One Road, and Peaceful Development) into objectives, approaches, and execution within Philippines.

China, like all modern countries, is the beneficiary of decades of scholarly work and theory in the field of economic statecraft. Underpinning this body of work is the centuries-old debate over the proper organization and relation of the state to economic markets. Preeminent scholars like Alexander Hamilton, Friedrich List, Adam Smith, Karl Marx, and Robert Gilpin structured this debate into three competing ideologies of political economy: economic nationalism (mercantilism), liberalism, and Marxism.²⁵ In simplified terms, the central factor dividing these ideologies is the relationship between politics and economics. Economic nationalism assumes the primacy of politics over economic activity, while liberalism delineates clear boundaries of separation between politics and economics, and Marxism views economics as driving politics. Which ideology of political economy each state chooses to organize itself by has implications on the type of economic statecraft tools it is able to employ, as well as the objectives toward which those tools are directed. When China transitioned from the Marxist ideology of its inception to what Kroeber describes as a “social economy with Chinese characteristics” in 1984 under Deng Xiaoping, China adopted an economic nationalist ideology centered on state building via the dual pursuit of power and wealth.²⁶ This shift in ideology also opened the doors on a wider range of tools the Chinese Communist Party could now utilize to pursue these goals via economic statecraft.

The vast majority of scholarship in the field of economic statecraft has focused on the macro level with the state as the basic unit of analysis. In examining power and influence within the context of international relations, Klaus Knorr identified economic power and military power as being two sides of the same coin, with both converting economic wealth in putative power with which to influence international actors.²⁷ David Baldwin built upon these ideas to define economic statecraft as “influence attempts

²⁵ Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987).

²⁶ Arthur Kroeber, *China's Economy: What Everyone Needs to Know* (New York: Oxford University Press, 2016), 13.

²⁷ Klaus Knorr, *The Power of Nations* (New York: Basic Books Inc., 1975).

relying primarily on resources that have a reasonable semblance of a market price in terms of money.”²⁸ Baldwin was also one of the first scholars to catalogue the wide array of economic statecraft tools available to the state, and this has spawned a vast literature on economic sanctions and the more coercive elements of economic statecraft. Building upon Albert Hirschman’s 1945 study of Germany’s asymmetric trade relations with its weaker Eastern European neighbors, Robert Keohane and Joseph Nye highlighted how states become vulnerable to economic statecraft via asymmetric economic dependence in a highly interdependent modern environment.²⁹ These scholars, among others, advanced the modern understanding of economic statecraft by framing the context within which it occurs and by identifying the underlying components that allow it to be effective. However, this body of work has focused primarily on the macro level with the state as the unit of analysis and national economic policies/trade agreements as the primary tool being utilized; far less research has focused on the micro level where individual commercial actors can become tools of statecraft.

Three notable exceptions to this come from Eugene Staley, Robert Gilpin, and most recently, William Norris. In *War and the Private Investor*, Staley examined the complex, (sometimes) mutually beneficial relationship between private foreign investment and governmental foreign policy. Significant to the topic of this thesis is Staley’s work identifying diplomatic benefits accrued to the state via private (commercial actor) foreign investment and highlighting the dynamic processes by which private investors and the state’s foreign policy establishment wrestle for control in pursuit of strategic outcomes.³⁰ Gilpin also focused on foreign investment; however, he centered his analysis on American multinational corporations operating under the umbrella of American hegemony in the twentieth century. Gilpin’s work highlighted the interplay of corporate and national interests, a critical factor in determining a state’s ability to

²⁸ David Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985).

²⁹ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston, MA: Little, Brown and Company, 1977).

³⁰ Eugene Staley, *War and the Private Investor* (Garden City, NY: Doubleday, Doran, and Company Inc., 1935).

leverage private economic activity in pursuit of strategic objectives.³¹ William Norris applied the theoretical foundations of Knorr and Gilpin to the empirical context of China to develop his own framework for analyzing a state's ability to mobilize and direct its economic power. Norris's central thesis is that since commercial actors are the primary agents actually executing the economic activities of the state, a state's ability to control these commercial actors, largely through manipulation of their incentive structures, is a critical prerequisite for exercising economic statecraft. By borrowing from principal-agent theory, Norris was able to identify five independent variables that combine to determine this prerequisite level of state control.³²

An examination of the literature on China's use of economic statecraft yields a similar picture with a majority of the research focused on China's macroeconomic policies and less attention paid to empirical analysis of how China is utilizing foreign investment at the micro level to achieve foreign policy objectives. Macro-level scholarship on Chinese economic statecraft emphasizes Chinese internal economic reforms, which took place during the 1980s and 1990s, as providing Chinese leadership with a greater economic lever to employ. This, coupled with explosive growth in gross domestic product (GDP) over the last 20 years, has provided the PRC with political legitimacy and stability.³³ Scholars, such as Reilly, point to the country's socialist government as well as its "state-led development model" as allowing China to use its economic resources to achieve foreign policy objectives. This school of thought is not new; as James Reilly has documented, China has historically distributed development assistance and foreign aid based on similar objectives.³⁴ Even with significant internal reforms, as Gregory Chow explains, the Chinese government still follows the belief that

³¹ Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books Inc., 1975).

³² Norris, *Chinese Economic Statecraft*.

³³ Ming Wan, *The Political Economy of East Asia* (Washington DC: CQ Press, 2008), 45.

³⁴ James Reilly, *China's Economic Statecraft: Turning Wealth into Power* (Sydney: Lowy Institute Press, 2013), http://sydney.edu.au/arts/government_international_relations/downloads/documents/Reilly_China_Economic_Statecraft.pdf, 3.

state-ownership of some significant parts of the economy is essential and therefore the role of market forces should be limited.³⁵

Authors, such as Denny Roy, believe that PRC senior leadership thinks differently about national power. Unlike western countries, which mostly focus on military force, Chinese officials often use terms such as *zonghe guoli* (宗和国力) or “comprehensive national power” and *zonghe anquan* (宗和安全) or “comprehensive security” (宗和安全).³⁶ These terms are used to indicate the basic Chinese belief that the strength and security of the country depends largely on social harmony and stability brought about through economic development. From this standpoint, as Roy discusses in *Return of the Dragon*, security goes beyond the protection of people, assets, and territory from foreign threats and requires the state to ensure continued economic growth at home.³⁷

China has used its state-level economic influence to modernize all aspects of its national power. Aaron Friedberg and others point out that Chinese firms, backed by Beijing, were able to drive hard bargains with foreign companies looking for access to China’s markets. In return for the right to build assembly plants or sell products domestically, these companies were required to transfer technology and know-how to their Chinese partners. According to Friedberg, this greatly reduced the time China needed to move up the tech ladder.³⁸

Research on macro-level Chinese economic statecraft also focuses on a small number of government agencies and state-owned enterprises when describing the proxies of Chinese influence. This includes the Ministry of Commerce (MOFCOM), which, according to its website, formulates and implements policy concerning foreign trade, investment, and economic assistance,³⁹ and the Ministry of Finance (MOF), which administers both macroeconomic policy and the national budget. Together, these state

³⁵ Gregory C. Chow, *China’s Economic Transformation* (Oxford: Blackwell Publishing, 2007), 417.

³⁶ Denny Roy, *Return of the Dragon: Rising China and Regional Security* (New York: Columbia University Press, 2013), 19.

³⁷ Ibid.

³⁸ Aaron L. Friedberg, *A Contest for Supremacy* (New York: W. W. Norton & Company, 2011), 236.

³⁹ “Mission,” Ministry of Commerce People’s Republic of China, December 7, 2010, <http://english.mofcom.gov.cn/column/mission2010.shtml>.

agencies “sit at the apex of Chinese economic power.”⁴⁰ As James Reilly discusses in *China’s Economic Statecraft*, China finances its economic statecraft mostly through state-owned banks.⁴¹ Two large banks with state mandates to implement government and CCP policies fill critical roles in China’s economic statecraft process. As its name suggests, the China Development Bank (CDB) finances development projects focused primarily on infrastructure and energy; while the Export-Import Bank of China (Eximbank) facilitates international trade deals and underwrites China’s foreign aid activity with preferential loans.⁴²

In addition to large state organizations, authors such as Andrew Nathan and Andrew Scobell point out that China has macro-economic tools involving government policies that it can utilize to achieve strategic objectives.⁴³ They note that these include currency manipulation, vague diplomatic threats, cancelation of leadership visits, and other informal or indirect measures.⁴⁴ Reilly observes that only rarely and only as a result of a significant slight (usually involving its human rights record) will China threaten to use economic sanctions.⁴⁵ According to authors of this school of thought, these measures enhance Beijing’s flexibility while minimizing diplomatic fallout.

Beyond internal Chinese economic development and reform, the PRC has committed itself to a strategy of “going out” (走出去), which supports foreign direct investment by state owned enterprises (SOEs) and private commercial actors. Friedberg describes how the policy resulted from 20 years of meteoric economic growth, during which time China developed an expanding requirement for foreign inputs, such as oil, minerals, and agricultural raw materials, to sustain its high growth rates.⁴⁶ As Gregory

⁴⁰ Reilly, *China’s Economic Statecraft*, 4–5.

⁴¹ Ibid.

⁴² Ibid.

⁴³ Andrew J. Nathan and Andrew Scobell, *China’s Search for Security* (New York: Columbia University Press, 2012), 268.

⁴⁴ Ibid., 268–269.

⁴⁵ Reilly, *China’s Economic Statecraft*, 8.

⁴⁶ Aaron L. Friedberg, *Going Out: China’s Pursuit of Natural Resources and Implications for the PRC’s Grand Strategy* (Washington DC: National Bureau of Asian Research, 2006), 7–8.

Chow has noted, “China faces a growing need to secure natural resources and raw materials, most notably energy and minerals such as iron ore, copper, and aluminum.”⁴⁷ Authors Chow, Reilly, and Freidberg,⁴⁸ all of whom examined the going out policy, suggest that this enormous dependence on foreign resources has compelled China to expand its international trade and investment activity outside of its immediate neighborhood and into areas, such as Latin America and Africa, where it has not historically been active.⁴⁹

Beyond the larger body of research dedicated to Chinese economic statecraft at the macro level, less work has been done focusing on Beijing’s use of economic statecraft at the commercial actor level. The one notable exception to this is the aforementioned work of William Norris, who examined how China is (or is not) able to control and direct the behavior of economic actors.⁵⁰ This was a groundbreaking work in that it provided a framework for analyzing Chinese economic statecraft at the micro-level and understanding the mechanisms that allow for it to happen. However, Norris’s contribution has not been applied or systematically tested beyond the five case studies he provides in his book. This necessitates further research focused on applying Norris’s theory in a different empirical context. We build on Norris’s work and attempt to fill a significant gap in the current literature by providing a country-specific application and examination of China’s use of economic tools by examining them in the context of the Philippines.

3. Capital Flows and Sino-Philippine Relations

One of the primary tools of Chinese economic influence is its ability to provide inducements to foreign governments to encourage implementation of policies that are in China’s interests. These “carrots” are generally recognized as Chinese capital flows—specifically ODI and official development assistance (ODA). The body of literature

⁴⁷ Chow, *China’s Economic Transformation*, 322.

⁴⁸ Friedberg, *Going Out*, 21.

⁴⁹ *Ibid.*, 10.

⁵⁰ Norris, *Chinese Economic Statecraft*.

examining Chinese capital flows has only focused on the aggregate (country and annual level), which prevents further analysis of potential second order effects of these flows on a given country. We fill this gap by providing a micro and “instance” level examination within the context of the Philippines.

Within this micro-level analysis of the effects of Chinese capital flows, our study contributes to the literature by illustrating the innate susceptibility of Philippine domestic politics to Chinese influence. Authors such as Anders Corr, Priscilla Tacujan, and Aileen Baviera have written extensively on how Philippine domestic political dynamics makes the country more susceptible to Chinese influence.⁵¹ One key observation asserted by Corr and Tacujan is the traditional population division between historically agrarian, landowning elites and the rest of Filipino society, including the middle class, students, peasants, and farm or factory workers.⁵² These elites are now gradually transitioning from the agricultural sector toward industrial and service orientated businesses. Political power rests in the hands of a few of these elite families who are often described as being dynastic in nature with extensive patron-client networks. Corr and Tacujan note legislative seats are aggressively defended among these well-connected families because of the political power and financial benefits associated with these positions.⁵³ This concentration of wealth and power among a narrow elite has led to systemic corruption in the Philippines over a long period of time—a significant domestic issue that Beijing has attempted to exploit for its own gain.

Writing on the nature of domestic politics in the Philippines, Aileen Baviera noted that China has successfully used inducement and persuasion to shape the behavior of Filipino decision makers.⁵⁴ Focusing on the Arroyo administration, she cites examples of energy cooperation in the South China Sea (e.g., the Joint Marine Seismic Undertaking)

⁵¹ Aileen S. P. Baviera, “The Domestic Mediations of China’s Influence in the Philippines,” in *Rising China’s Influence in Developing Asia*, ed. Evelyn Goh (Oxford: Oxford University Press, 2016).

⁵² Anders S. Corr and Priscilla A Tacujan, “Chinese Political and Economic Influence in the Philippines: Implications for Alliances and the South China Sea Dispute,” *Journal of Political Risk* 1, no. 3 (July 2013), <http://www.jpolrisk.com/chinese-political-and-economic-influence-in-the-philippines-implications-for-alliances-and-the-south-china-sea-dispute/>.

⁵³ Ibid.

⁵⁴ Baviera, “The Domestic Mediations.”

and large Chinese investment projects in the Philippines like Philippine National Broadband Network and Zhongxing Telecommunication (NBN-ZTE) and Northrail. All three cases were heavily lobbied for by Chinese officials. Baviera contends that China used its influence over Filipino political elite by working through channels of corruption and informal patronage to achieve a foreign policy outcome that was in its interests.⁵⁵ She has also argued that Beijing's ability to translate its obvious asymmetric power advantage into influence depends on multiple factors, including how well it is able to cultivate allies among members of the Philippine elite. The Joint Marine Seismic Undertaking, NBN-ZTE, and Northrail cases demonstrate that there are instances in which the Chinese government successfully navigated a Philippine political system characterized by multiple entry points, informal mechanisms, and bureaucratic incoherence to build alliances with local rent-seeking politicians in Manila. As described by Baviera, these alliances ultimately strengthened China's economic influence and political foothold in the country as well as provide examples of how Beijing can shape Philippine decision-making when interests in both countries are aligned.⁵⁶ Our study follows up on Baviera's work by examining other instances of Chinese investment in the Philippines at the commercial actor level with the goal of understanding who ultimately benefited from these deals. We attempt to fill the identified literature gap by carefully examining several individual deals to gain new insight on Chinese influence and intentions in the Philippines.

During the course of our research, we identify several gaps in the literature regarding Chinese grand strategy, economic statecraft, and Sino-Philippine relations. First, experts have not looked for evidence of Chinese grand strategy at a more granular level—that is through case studies of Chinese implementation in individual countries. The vast majority of the literature only treats Chinese grand strategy in the theoretical context without an examination of how it is translated and implemented at the individual country level. We contribute to filling this gap by tracing concepts of Chinese grand strategy down to implementation in a single country, the Philippines. Second, most of the

⁵⁵ Ibid.

⁵⁶ Ibid.

literature dedicated to examining Chinese economic statecraft focuses on monetary policy, currency manipulation, and outward direct investment at the macro level while far less research has been conducted into Beijing's use of economic statecraft at the commercial actor level. To contribute to this gap, we focus on capital flows using empirical data at the micro or individual instance level. Finally, while much macro level research has gone into the Chinese side of its international capital flows, the micro level effects these investments generate on the recipient side of the equation have gone largely unstudied. We contribute to filling this gap by providing a micro level examination of Chinese capital flows in the Philippines using visual analytic techniques not previously used in the literature to identify heretofore unseen effects with implications for the Sino-Philippine bilateral relationship.

II. METHODOLOGY AND DATA

As previously stated, the research question we intend to pursue in this thesis is: What evidence does China's investment in the Philippines contribute to the understanding of China's grand strategy objectives? To fully answer this research question, we have developed five sub-questions to guide our examination and provide the backbone for the body of our analysis. In this section, we introduce each of these sub-questions and define the methodology used to answer them.

A. CHINA'S STRATEGIC APPROACH TO THE PHILIPPINES

Interpreting the effects of China's investment in the Philippines first requires an understanding of the context in which those investments were made, namely, the bilateral relationship between China and the Philippines. This led us to ask: What is China's strategic approach to the Philippines? To answer this question, we began with a study of China's overt national policy documents and strategic concepts that underpin its international economic engagement activity. Based on our review of the literature, we identified the following sources as relevant to formulation of China's foreign policy since 2001:

1. Going Out Strategy (*Zou Chuqu*)—The going out policy or “going global” strategy is an economic effort initiated by the Chinese government in 2002 to encourage Chinese investments abroad.⁵⁷
2. White Paper on Peaceful Development—China's peaceful development strategy became an official PRC policy under President Hu Jintao. The policy itself was first introduced late 2003 in a speech by PRC premier Wen Jiabao during a meeting with Association of Southeast Asian Nations (ASEAN) leaders. In 2011, China issued a white paper on peaceful development, which emphasized that the policy was designed to reassure nations in Asia as well as the United States that China's growing economic and military power was not a threat to regional stability.⁵⁸
3. 13th Five-Year Plan—China released its 13th Five-Year Plan (FYP) on National Economic and Social Development in April 2016 at the

⁵⁷ Nargiza Salidjanova, *Going Out: An Overview of China's Outward Foreign Direct Investment* (Washington, DC: U.S.-China Economic and Security Review Commission, 2011), 5.

⁵⁸ Information Office of the State Council, *China's Peaceful Development*.

conclusion of the PRC National People's Congress. The plan outlines economic policies and targets for growth in China through 2020. It broadly focuses on maintaining economic growth and social stability while continuing key reform efforts.⁵⁹

4. One Belt, One Road Initiative—The OBOR initiative was proposed by Chinese President Xi Jinping during visits to Kazakhstan and Indonesia in 2013. Collectively, OBOR is made up of what is known as the New Silk Road Economic Belt and the 21st Century Maritime Silk Road. The Chinese government issued an official document laying out the major objectives of OBOR in March, 2015⁶⁰ and included it as an important component of the 13th FYP.

Drawing on key concepts identified in these sources, this section fills a gap in the literature by distilling these broad national level policies into strategic approaches specific to the Philippines. These strategic approaches are then examined through the historical lens of the three Philippine administrations that correspond with the time period contained in our data set.

1. Glorio Arroyo administration (2001–2010)
2. Benigno Aquino III administration (2010–2016)
3. Rodrigo Duterte administration (2016–present)

B. UNIQUE CHARACTERISTICS OF CHINESE INTERNATIONAL INVESTMENT

Also critical to interpreting the implications of Chinese investment in the Philippines is an understanding of the mechanisms that govern these capital flows. This section focuses on how the Chinese government supports and implements a measure of control on overseas investments. To illustrate this, we examine and draw from the state-agency issued directives and circulars that compose China's emerging regulatory framework on overseas investment. To identify how the Chinese government guides and supports overseas investment, we focused on the following primary source documents:

⁵⁹ Katherine Koleski, *The 13th Five-Year Plan* (Washington, DC: U.S.-China Economic Security Review and Commission, 2017), 3–5.

⁶⁰ National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, *Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road (Vision and Actions)* (Beijing: National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, 2015), www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml.

- Circular of Ministry of Commerce and Ministry of Foreign Affairs of Distributing Guide Catalogue of Countries and Industries for Investment Abroad⁶¹
- Notice of the National Development and Reform Commission (NDRC), the Export-Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State/Circular on Supportive Credit Policy on Key Overseas Investment Project Encouraged by the State⁶²
- Ministry of Commerce and China Export and Credit Insurance Corporation Circular on Promoting Development of Export Name Brands with Help of Export Credit Insurance⁶³
- Outward Investment Sector Direction Policy and 2006 Catalogue of Industries for Guiding Outward Investment⁶⁴
- Adjusting the Relevant Matters on the Examination and Approval of Overseas Investment⁶⁵

C. CHINESE INVESTMENT IN THE PHILIPPINES 2006–2016

This section begins our examination of Chinese investment at the micro level through a detailed analysis of the 41 instances of investment since 2005 contained in our data set. This analysis proceeds in three stages. In the first stage, we classify the types of investment based on a typology used by the United Nations Commission on Trade and Development (UNCTAD) and consisting of outward direct investment, overseas construction contracting, and international service provision by Chinese firms. We then examine those instances in detail and highlight the relative distribution of instances amongst those three categories. In the second stage, we examine how these investments conform to China’s strategic approaches of peaceful development and “win-win” economic interaction. To do this, we compare the type of investment and the economic sector in which it was made with Philippine development priorities as laid out in the

⁶¹ Nathalie Bernasconi-Osterwalder, Lise Johnson, and Jianping Zhang, *Chinese Outward Investment: An Emerging Policy Framework: A Compilation of Primary Sources* (International Institute for Sustainable Development, 2000), 38.

⁶² Ibid., 48–50.

⁶³ Ibid., 50–51.

⁶⁴ Ibid., 67–72.

⁶⁵ Ibid., 75–76.

*Medium Term Philippine Development Plan 2004–2010*⁶⁶ and the *Philippine Development Plan 2011–2016*.⁶⁷ Using this method, we are able to identify the proportion of Chinese investments that directly address recipient country needs (in this case the Philippines) and allow us to make an informed judgment on the extent to which the Chinese investments promote win-win economic interaction. Finally, in the third stage, we examine the failed instances of Chinese investment in our dataset (those project/deals cancelled by either party) with an emphasis on how those failures have affected both the level and types of Chinese investment in subsequent periods.

D. GEOSPATIAL PATTERNS OF CHINESE INVESTMENT IN THE PHILIPPINES

One advantage of dropping our level of analysis down to the micro or instance level is that it allows for analytic treatments not possible on the aggregate figures that currently dominate the literature on Chinese investment. In this section, we use one such analytic technique, geospatial analysis, to ask the question: are there any geospatial patterns of Chinese investment in the Philippines that would provide China with a geopolitical or competitive advantage? This technique utilizes specialized software to link natural phenomena and features to their location on a map in order to observe patterns and answer “where” type questions. In the course of developing and compiling our dataset, we recorded the approximate geographical position (in degrees latitude and longitude) of each instance of Chinese investment for which location data existed.⁶⁸ Then using the ArcGIS geospatial software system, we placed each of these investments on a map of the Philippines. To determine if said investments resulted in a geopolitical or

⁶⁶ National Economic and Development Authority, *Medium-Term Philippine Development Plan 2004-2010* (Manila, Philippines: National Economic and Development Authority, 2004), <http://www.philconstruct.com/docs/downloads/NEDA%20DOCS/Medium%20Term%20Development%20Plan%202004-2010.pdf>.

⁶⁷ National Economic and Development Authority, *Philippine Development Plan 2011–2016* (Manila, Philippines: National Economic and Development Authority, 2011) <http://www.neda.gov.ph/2013/10/21/philippine-development-plan-2011-2016/>.

⁶⁸ Not every entry in our dataset was able to be mapped using this method. Several of the more recent (e.g., 2016 state visit) deals lack publicly released details regarding specific locations and thus were omitted from this analysis. Likewise, investments that do not have a discrete location component (e.g., nationwide LTE cellular infrastructure or unspecified three million hectare land lease) were also omitted.

competitive advantage, we viewed the resulting geospatial distribution of investments within the context of China's actions and ability to control the South China Sea.

A tightly knit cord of commercial sea lanes weave through the South China Sea bringing with it 5.3 trillion U.S. dollars (USD) of global trade flows each year. Recently, a senior U.S. defense official⁶⁹ theorized that China's artificial island building and maritime claims represent an attempt to control the South China Sea as a strategic chokepoint for military force projection and diplomatic leverage. Thus, it is possible that China's investments in the Philippines could provide a geopolitical advantage if they somehow support or strengthen China's hold over the South China Sea as a strategic chokepoint.

To apply this lens, we began with a map of Chinese investments in the Philippines. To this map, we added a visualization of the commercial shipping lanes flowing through the South China, as well as locations where China is currently constructing artificial islands. Using this new map, we then visualized the various access points to the South China Sea and assessed China's ability to control them via their established positions in and around the area. Finally, we turned our examination to the various Chinese investments in the Philippines and looked for 1) investments that would support or strengthen existing Chinese positions by virtue of their spatial relation, or 2) investments that would strengthen China's control over the South China Sea by filling previously uncontrolled access points.⁷⁰ We then defined presence of either of these two conditions as providing a geopolitical advantage to China.

E. RELATIONAL ANALYSIS OF CHINESE INVESTMENT IN THE PHILIPPINES

Using relational analysis, this analysis explores a second question, namely, do the personal and/or institutional linkages that arise from Chinese investment in the

⁶⁹ Anonymous comments, lecture as part of Secretary of the Navy Guest Lecture Series, Naval Postgraduate School, Monterey, CA, January 2017.

⁷⁰ Doing so requires making the assumption that a Chinese investment or construction project results in a continued presence and/or potential for future presence and influence in that same area. Validity of this assumption is addressed below in the analysis for this section.

Philippines provide channels for Chinese influence on Philippine decision-making? In simple terms, this means identifying and visualizing the connections and relationships among the commercial actors conducting this investment activity. The term actors refers to any entity involved in these investment activities, and based on our data set, includes both Filipino and Chinese individuals, companies, banks, and governmental and non-governmental organizations. The relationships between these actors vary but arise from hierarchical relationships (i.e., parent-subsidiary), current and previous employment relationships, ownership, funding relationships, and past and current business dealings. To make sense of this interconnected web of actors and relationships, we then applied two broad visual analytic techniques. The first is link analysis, which uses nodes and linkages to visually depict the relationships and connections among people, places, and things. The second is social network analysis (SNA), which is a collection of theories and techniques used to understand social structure or the “social space.”

To search for potential channels the Chinese could use to influence Philippine decision-making, we attempt to operationalize a theory posited by Sino-Philippine scholar Aileen Baviera. As one of the only scholars that have studied the effects of Chinese influence on Philippine domestic mediations arising from economic interactions, Baviera posited that Chinese economic power translates to influence via “successful cultivation of allies among members of the Philippine political elite with whom it has shared preferences.”⁷¹ She has also documented several historical cases in which such cultivation has been successfully orchestrated via reciprocal ties of mutual benefit, corruption, and informal patronage. To operationalize this theory, we make the assumption that Philippine entities (companies, individuals, or organizations) that are highly connected or deeply embedded within this social space of Chinese investment represent potential allies through which Chinese influence could flow.

To look for high connectivity among these actors, we began with a very common social network analysis algorithm: degree centrality. Degree centrality is simply a count of the number of ties an actor has to other actors within the network. The results of this

⁷¹ Baviera, “The Domestic Mediations,” 127.

metric are commonly interpreted as being a representation or estimation of the actor's connectedness, power, and/or influence within the network.⁷² Eigenvector centrality begins with each actors degree centrality score and then weights it based on the degree centrality scores of the actors to whom it is tied. Thus, eigenvector centrality emphasizes to *whom* a given actor is tied and higher scores are generated when an actor is tied to other actors who are highly connected within the network. For this reason, according to Cunningham, Everton, and Murphy, eigenvector centrality is commonly interpreted as an estimation of the actor's social capital and indirect influence.⁷³ Together, these two metrics provide a means for identifying Philippine actors who are highly connected, both directly (degree centrality) and indirectly (eigenvector centrality), within the network and thus could potentially fit Baviera's description of a cultivated ally.⁷⁴

To look for highly embedded actors, we turned to a third social network analysis metric: local clustering coefficient. This metric measures the density of an actor's ego network and is best explained using as visualized in Figure 1.

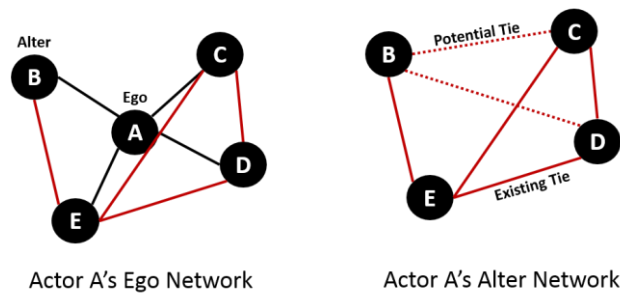


Figure 1. Ego and Alter Networks

Actor A (the ego) is connected to Actors B, C, D, and E (the alters) via links shown in black; this is Actor A's ego network. However, Actors B, C, D, and E may also be connected to one another via links shown in red; this is the alter network. The local

⁷² Daniel Cunningham, Sean F. Everton, and Philip Murphy, *Understanding Dark Networks: A Strategic Framework for the Use of Social Network Analysis* (Lanham, MD: Rowman & Littlefield, 2016), 144.

⁷³ Ibid.

⁷⁴ Baviera, "The Domestic Mediations."

clustering coefficient for an undirected graph⁷⁵ takes Actor A's ego network, removes Actor A and all of his or her ties, and then measures the density of the remaining alter network based on the ratio of existing (red solid lines) to all potential (sum of red dashed lines and solid lines) ties amongst the alters.⁷⁶ Thus, a high local clustering coefficient score indicates that a given actor is part of a dense, local grouping or cluster, which we define as being highly embedded.

Finally, building upon the results from the aforementioned SNA metrics, we then used link analysis to examine the nature of the relationships between these highly connected and embedded Philippine and Chinese actors. In this analysis, we assume that a given Philippine actor's past experience working with Chinese actors and participating in instances of Chinese investment will positively influence the likelihood that that Philippine actor will do so again in the future. Thus, a Philippine individual or company that is connected to a large number of Chinese actors through multiple instances of investment is potentially more likely to act like an ally in future situations based on their shared history of mutual benefit. To identify such Filipino individuals or firms, we relied upon visual inspection of the link diagram generated by our data set and focused on Philippine actors that were 1) directly connected to five or more Chinese actors, and or 2) participated in three or more instances of Chinese investment.⁷⁷ Philippine actors meeting one or both of those criteria were considered as having high potential for being a "cultivated ally," as described by Baviera.⁷⁸

⁷⁵ An undirected graph refers to a social network in which the ties between actors are reciprocal, meaning the relationship goes both ways. For example, if Actors A and B are connected via an undirected friendship tie, that means Actor A considers Actor B a friend and vice versa. This is in contrast to a directed graph, which would be composed of non-symmetric, or one way, ties amongst actors. Using a similar example, if Actors A and B are connected via a directed friendship tie that runs from A to B, that means Actor A considers Actor B a friend, but Actor B does not consider Actor A to be a friend.

⁷⁶ Cunningham, Everton, and Murphy, *Understanding Dark Networks*, 100.

⁷⁷ We set the selection criteria at these levels because they represent the upper bounds, or maximums, within our data set.

⁷⁸ Baviera, "The Domestic Mediations."

F. DATA SOURCES AND COLLECTION

The principal impediment that has stifled empirical research into Chinese ODI at the commercial actor level is primarily a lack of data. China's Ministry of Commerce (MOFCOM) is the government organization charged with tracking and maintaining a database of Chinese firms investing outside the PRC. MOFCOM produces monthly and annual reports on this ODI activity and makes them available for public consumption; however, these reports only provide detail down to the country level. It does not disclose the individual firms and deals that make up the aggregate figures. Other statistical databases maintained by the World Bank, International Monetary Fund, and the Organization for Economic Co-operation and Development that provide information on international foreign direct investment present the same problem, foreign direct investment (FDI) details are only shown in the annual aggregate. This lack of readily available and vetted, firm level data forced us to research, compile, and develop our own data set for use in this analysis. Development of that data set proceeded in two stages.

The first stage focused on erecting the skeleton of the data set, or identifying all of the potential instances of Chinese ODI since 2006.⁷⁹ To do this, we drew from four main sources of information. The bulk of the data was supplied by the China Global Investment Tracker, a database of Chinese investment overseas, sponsored by the Heritage Foundation and the American Enterprise Institute, compiled and vetted by Dr. Derek Scissors.⁸⁰ This source provided firm level data on all instances of Chinese investment and construction in the Philippines from 2005 to early 2016. The other main source of data was Philippine Trade Secretary Ramon Lopez's official disclosure of the

⁷⁹ We chose to only look at investments going back to 2006 because that is the earliest recorded entry in Derek Scissors' China Global Investment Tracker, which was the primary data source for our analysis.

⁸⁰ Derek Scissors, "China Global Investment Tracker," American Enterprise Institute, accessed October 15, 2016, <https://www.aei.org/china-global-investment-tracker/>.

deals signed during President Duterte's official state visit to China in October 2016.⁸¹ The remaining entries to the data set were derived from Dr. Thomas Stern's working paper on Chinese investment in the Philippines⁸² and through personal scouring of Philippine and Chinese news outlets and archives.

The second stage of data collection focused on adding meat to the skeleton. This included confirming each instance of Chinese ODI through multiple sources, compiling metadata on each of the instances, and identifying the Chinese and Philippine commercial actors involved. Our primary source for confirming each instance and compiling metadata was official announcements made by the involved firms (both Chinese and Philippine) found in the news archives of the corporate websites. When no such website existed, the instances were confirmed through archived stories as reported by Philippine news outlets. We then conducted deep dive research into each of the identified commercial actors using the Hoovers⁸³ and Philippine Stock Exchange⁸⁴ databases of company information to parse out parent/subsidiary relationships and identify individuals in corporate leadership positions.

G. DATA STRUCTURE

The resulting data set contains 41 entries, or instances, of Chinese ODI, construction contracting, or service provision in the Philippines. Of these, 12 represent investments and construction projects that are currently underway or complete, five represent transactions that were agreed upon then subsequently cancelled or suspended

⁸¹ These deals represent memoranda of understanding, letters of intent, and agreements to conduct feasibility studies between Chinese and Philippine commercial actors. Although they have not resulted in official contracts at the time of this writing, they are included in this study because they are believed to be the opening moves in a flood of future Chinese investment in the Philippines. For a complete list of the deals proposed during the 2016 state visit, see Trade Secretary Ramon Lopez's disclosure to the Philippine media at Amy R. Remo, "Itemized List of PH Projects Covered by China's \$15-B Investment Pledges to Duterte," *Philippine Daily Inquirer*, October 23, 2016, <http://business.inquirer.net/217269/itemized-list-ph-projects-covered-chinas-15-b-investment-pledges-duterte>.

⁸² Tom K. Stern, "Chinese Investments in the Philippines," *Journal of Political Risk* 4, no. 6 (2016), <http://www.jpolrisk.com/chinese-investments-in-the-philippines/>.

⁸³ Company profile searches can be conducted with a paid subscription at <http://www.hoovers.com/company-information/company-search.html>.

⁸⁴ The Philippine Stock Exchange provides information on publicly traded companies for free at <http://edge.pse.com.ph/>.

by either party, and the remaining 25 are future deals agreed to during President Duterte's state visit to China in October 2016. The deals range in value from 100 million USD to nearly 4 billion USD and cover a time span from December 2006 to December 2016. The commercial actors with identified involvement in these instances include Chinese SOEs and their subsidiaries, Chinese lending institutions, Philippine public and private companies, and Philippine government organizations. For each of the 41 instances of investment, we collected two types of data: geospatial data and relational data.

We collected geospatial data in the form of degrees latitude and longitude on each instance of investment via Google Earth. We focused on the geospatial coordinates of where the investment was planned/implemented rather than where the participating commercial actors were headquartered. For investments where the specific, pinpoint location was not specified yet the general area was known (e.g., Ambuay River Basin), we approximated the location by choosing coordinates in the midpoint of that general area or terrain feature. Using this methodology, we were able to collect geospatial data for 20 of the 41 instances of investment. We did not record geospatial data for 21 of the investments for one of two reasons: 1) the location of the investment has not yet been specified or disclosed (this mainly pertains to the investments recently announced during President Duterte's state visit to China in 2016), or 2) reducing the investment to a single point on a map was not conducive or feasible (e.g., State Grid Corporation of China's controlling share investment in the National Grid Corporation of the Philippines or Huawei Technologies' service provision to Globe Telecom's entire LTE network).⁸⁵

Relational data for each instance of investment consisted of the relationships or ties that connect the various Chinese and Philippine actors participating in or facilitating each investment. The resulting social network, to which we applied the aforementioned social network analysis metrics, is a one-mode network⁸⁶ consisting solely of

⁸⁵ We recognize the potential limitations presented by this lack of data; however, for the purposes of exploratory research, we deemed the available data sufficient for making general observations.

⁸⁶ A one-mode network is a network composed of a single type of entity. In our case, that entity type is organizations. This is in contrast to a two-mode, or multi-mode, network that would consist of two or more types of entities, like organizations *and* individuals. Most social network analysis software packages are limited to analyzing one-mode networks.

organizations. These organizations include Philippine and Chinese businesses, government agencies, and non-governmental organizations. Ties among these organizations were recorded based on three types of relationships: 1) parent-subsidiary or ownership, 2) participation in the same instance of investment, or 3) corporate interlock wherein two separate companies are linked through a single individual who sits on both companies' board of directors. Using this methodology, the social network we examined consisted of 147 organizations connected by 215 unweighted and undirected links.⁸⁷

⁸⁷ Unweighted means that each of the three types of relationships/links were treated as the same value, and no one type was given more importance than the others. Undirected means that the links between organizations were bidirectional or a two-way street.

III. CHINESE STRATEGIC APPROACHES TO THE PHILIPPINES

In 2013, China under the leadership of its new president Xi Jinping launched a bold economic initiative by establishing a new multilateral development institution—the Asian Infrastructure Development Bank (AIIB). Xi argued the AIIB would assist China’s neighbors and developing countries around the world by filling the roughly 1 trillion USD gap in infrastructure financing. This initiative along with others, such as OBOR and the New Silk Road (see Figure 2), represent ambitious, Chinese-led financial and development institutions that have raised concern in Washington regarding Beijing’s increasing regional and global economic influence.⁸⁸ Some experts and policy makers have made a point of viewing China’s new international economic initiatives under Xi Jinping as constituting a more ambitious approach to its foreign policy. According to Ferchen, they argue that this foreign policy deviates significantly from the low-key framework that has been the norm for the last two decades.⁸⁹



Figure 2. One Belt, One Road Map⁹⁰

⁸⁸ Matt Ferchen, “How New and Crafty is China’s New Economic Statecraft?” *Foreign Affairs*, March 8, 2016.

⁸⁹ Ibid.

⁹⁰ Source: “Our Bulldozers, Our Rules,” *The Economist*, July 2, 2016, <http://www.economist.com/news/china/21701505-chinas-foreign-policy-could-reshape-good-part-world-economy-our-bulldozers-our-rules>.

Majid posits that China's Southeast Asian neighbors have also observed this new assertiveness with mixed reactions.⁹¹ For a region continuing to focus on achieving long-term development and economic advancement for its population, there could certainly be significant financial benefits to partnering with China in these new initiatives. China's rise as the world's second largest economy and Southeast Asia's leading trading partner has led to greater economic interdependence for the region as well as continuing concerns about Beijing's long-term intentions. Nie proffers that many of these fears are driven by Chinese actions in the South China Sea where the territorial claims of seven countries overlap.⁹²

The Philippines is one example of a country facing the challenge of conflicting interests in its relations with its larger neighbor (China). On the one hand, it wants to take advantage of Chinese investment and trade to spur its own economic development. On the other, it has had a complicated and sometimes unfriendly relationship with China due to tensions over the South China Sea dispute. As Chinese foreign policy arguably transitions from *keeping a low profile* to *striving for achievement*, Xuetong asks, what strategy if any does Beijing utilize when dealing with the Philippines?⁹³ This chapter describes two different strategic approaches China uses in its interactions in Southeast Asia and has applied within the context of Sino-Philippine bilateral relations. First, regarding the South China Sea dispute, China aggressively pursued what it sees as its territorial interests in the region regardless of the fallout in Manila or other Southeast Asian capitals. At the same time, Nie notes, China broadcasts clear signals of goodwill and cooperation toward countries in Southeast Asia, including the Philippines, through pledges of joint development, mutual prosperity, and cooperation.⁹⁴

⁹¹ Munir Majid, "Southeast Asian View of China's Not So Neighborly Rise," *International Politics* 51, no. 3 (2014): 398.

⁹² Wenjaun Nie, "Xi Jinping's Foreign Policy Dilemma: One Belt One Road or the South China Sea?" *Contemporary Southeast Asia* 38, no. 3 (2016): 423.

⁹³ Yan Xuetong, "From Keeping a Low Profile to Striving for Achievement," *The Chinese Journal of International Politics* 7, no. 2 (2014): 153.

⁹⁴ Nie, "Xi Jinping's Foreign Policy Dilemma," 423.

These strategies are analyzed over the course of the three most recent Philippine administrations to determine the effectiveness of these strategic approaches. The Aquino administration (2010–2016) provides an example of more aggressive, adversarial Chinese strategy. Aquino, who was in power during the height of tensions over the South China Sea dispute, took a much firmer stance toward Beijing while at the same time renewing security cooperation with the United States. According to Corr and Tacujan, China responded by placing political and economic pressure on the Philippines.⁹⁵ The Arroyo (2001–2010) and Duterte (elected in 2016) administrations provide an example of China applying tenets of its peaceful development and good neighbor policies toward relations with the Philippines. Zha asserts that both presidents chose to pursue closer relations with China than had previous Philippine administrations, and Beijing rewarded this with new investments, high level visits, and lucrative trade deals.⁹⁶

A. CHINA’S STRATEGY IN SOUTHEAST ASIA

Due to a long history of political interaction, cultural similarities, and geographic proximity, Southeast Asia holds significance for China. Shirk argues that Beijing focuses more on its relations with countries in the region to “concentrate attention on managing the periphery.”⁹⁷ Traditionally, Shirk continues, China has viewed Southeast Asia as falling within its sphere of influence and as a potential “strategic backdoor through which hostile outside power could penetrate and disrupt China’s development.”⁹⁸ For several decades, China’s strategy has (and continues to be) focused on improving relations with Southeast Asian countries through mutually beneficial economic development to maintain stability on its periphery.

While China has recently developed closer diplomatic and economic ties with its Southeast Asian neighbors, relations between Beijing and the region have traditionally

⁹⁵ Corr and Tacujan, “Chinese Political and Economic Influence.”

⁹⁶ Wen Zha, “Personalized Foreign Policy Decision-making and Economic Dependence: A Comparative Study of Thailand and the Philippines’ China Policies,” *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 37, no. 2 (2015): 242–268.

⁹⁷ Susan L. Shirk, *China: Fragile Superpower* (Oxford: Oxford University Press, 2007), 112.

⁹⁸ *Ibid.*, 112–113.

been strained. During the 1960s and 1970s, China under the leadership of Mao Zedong sought to overturn the international system. The country's population and economy were isolated from outside influence. As Feigenbaum explains, Mao opposed nearly every major global institution and offered a revolutionary anti-capitalist vision as an alternative to the Western dominated global order.⁹⁹ Beijing backed up its rhetoric by promoting internal and often violent revolutions against several countries in Southeast Asia, including Malaysia, Cambodia, Indonesia, and the Philippines. This was in spite of Premier Zhou Enlai's proposed "Five Principles of Peaceful Coexistence," which from a Chinese perspective, was seen as a significant contribution to the establishment of more equitable relations between nations.¹⁰⁰ Because of Beijing's support for overseas revolution, many in the region viewed China as a threat to be balanced through closer relations with the United States.

By 1979, China, feeling more and more contained by Soviet presence in India and Vietnam as well as U.S. alliances with Japan, Thailand, Philippines, and South Korea, began an extensive effort to improve relations with its neighbors in Southeast Asia. This effort was driven mostly by Beijing's adoption of new economic reforms and a policy of opening up the country to the world. Ten years prior to the end of the Cold War, Deng Xiaoping believed that for China to achieve significant economic development, the country needed a peaceful and relatively stable international environment. Deng promoted the policy of keeping a low profile in regard to foreign affairs. This strategy became the bedrock of Chinese foreign policy for decades. Under Deng, there was a fundamental shift among the majority of CCP leadership from promoting policies that supported socialist revolutions abroad to improving and stabilizing relationships with governments in the Asia-Pacific region.¹⁰¹ Whereas its neighbors once feared that China

⁹⁹ Even A. Feigenbaum, "China and the World: Dealing with a Reluctant Power," *Foreign Affairs* 96, no. 1 (2017): 34.

¹⁰⁰ "Xi's Speech at Five Principles of Peaceful Coexistence Anniversary," China, July 7, 2014, http://www.china.org.cn/world/2014-07/07/content_32876905.htm.

¹⁰¹ Shirk, *China*, 111.

would export revolution to them, under keeping a low profile, this was soon no longer the case. Shirk notes that by 1991, Beijing had severed all aid to rebel groups.¹⁰²

As new market-based reforms and increased economic opening produced double-digit GDP growth in China year after year, Beijing began to realize that the country needed to look abroad to meet its insatiable need for energy, raw materials, and agricultural products. This prompted the CCP to officially launch its “Going Out” campaign in 2002. Going Out encouraged and often directed Chinese firms, especially SOEs, to invest overseas. Since this policy was announced, Forney states, there has been a race amongst these firms to buy up foreign assets.¹⁰³ Beijing issued additional guidance regarding Going Out in 2003 when it emphasized acquiring mineral resources. As described by Friedberg, the government used tax incentives and subsidized loans to promote overseas investment by Chinese mining firms.¹⁰⁴ As Friedberg has also noted, China’s acquisition of natural resources can be organized into three concentric geographic zones. The first zone comprises the area closest to China—its coast and borders, the greater Asian region, and island nations in the Pacific Ocean. As discussed in Friedberg, the oil producing regions of the Middle East and Persian Gulf comprise the second zone, while Africa and the western hemisphere make up the third. China is seeking raw materials and energy in the first and third zones and strictly energy in the second.¹⁰⁵

Since Going Out was initiated, the Chinese have secured access to natural resources and energy on a much more global scale. This increased overseas activity, growing economic influence, and rapid Chinese military modernization has given credence to those who advocate the China threat theory. This theory gained popularity among some policy makers in Southeast Asia due to fears that China’s growth and resource acquisition would stifle their own country’s development. For much of the

¹⁰² Ibid, 113.

¹⁰³ Matthew Forney, “China’s Going-Out Party: Beijing is Pushing Chinese Firms to Establish a Global Presence- Despite the Many Risks that Involves,” *International Times (Asia Edition)* 165, no. 3 (2005): 29.

¹⁰⁴ Friedberg, *Going Out*, 22.

¹⁰⁵ Ibid, 23.

decade leading up to 2010, Beijing engaged in what became known as smile diplomacy toward Southeast Asia. This was a multiyear effort to try to convince Southeast Asian countries that China threat theory was inaccurate and exaggerated and China's rise should be viewed as an opportunity for shared economic growth.¹⁰⁶ Smile diplomacy included investing heavily in strengthening relations with key countries in the region like Malaysia, Indonesia, Singapore, Thailand, and the Philippines.

To soften its image, China also became a much more active participant in ASEAN. ASEAN itself is a cooperative association of states emphasizing a community building agenda.¹⁰⁷ During the 1998–1999 Asian financial crisis, China boosted its standing within ASEAN after it decided not to devalue its currency—a move that came at a time when other Southeast Asian countries were desperately trying to increase their own exports. Within ASEAN, states still pursue their own interests, but the organization has encouraged significant economic cooperation and greater interdependence among members.¹⁰⁸ China has no problem dealing with economic issues on a bilateral basis or through institutions, such as ASEAN. When it comes to matters of national sovereignty or territorial disputes, however, Beijing insists on working through those issues on a bilateral basis. This has created suspicion that China is trying to divide and conquer by using its asymmetric military and economic advantages to pressure individual countries at the negotiating table.¹⁰⁹

Since 2011, peaceful development as well as its precursor, 'peaceful rise' has formed the core nucleus of Chinese strategy towards the region and the rest of the outside world. In its 2011 white paper on the subject, China's State Council described the basic tenets of the peaceful development strategy, which emphasized development as the country's primary economic objective.¹¹⁰ peaceful development is based on what Chinese government officials claim is a virtuous cycle—China's continuing economic

¹⁰⁶ John Lee, "China's Economic Leverage in Southeast Asia," *East Asian Affairs* 29, no. 1 (2015): 3.

¹⁰⁷ Majid, "Southeast Asian View," 399.

¹⁰⁸ Ibid.

¹⁰⁹ Ibid.

¹¹⁰ Information Office of the State Council, *China's Peaceful Development*.

development is dependent on internal stability and a stable regional and international environment. Chinese economic growth will contribute to regional prosperity, which in turn will support stability. Throughout the white paper, statements such as “win-win,” “mutually beneficial,” and “common development” are used in an effort to influence skeptical neighbors who are suspicious of Chinese intentions.

The implication of peaceful development and the 2011 white paper is that leaders in Beijing clearly want to signal to countries throughout Southeast Asia that the PRC sees its own rise not as zero-sum game, wherein China receives all the benefits of growing economic influence and all others lose. Instead, according to Ferchen, China views its rise as relying on cordial political relations and growing economic interdependence—both of which contribute to the development of the region.¹¹¹ Despite speculation of shifting foreign policy strategy, the peaceful development framework continues to be relevant under the leadership of Xi Jinping. Xi has not abandoned or altered the core peaceful development policy agenda; instead, through initiatives like AIIB and OBOR, he has expanded it.

Xi Jinping has made deepening the peaceful development framework a key element of his foreign policy agenda. He has promoted the Chinese dream concept, which draws on the strategy’s core principals and language. During a 2014 address at the Central Foreign Affairs meeting in Beijing, Xi argued,

We should seek other countries’ understanding of and support for the Chinese dream, which is about peace, development, cooperation, and win-win outcomes. What we pursue is the wellbeing of both the Chinese people and the people of all other countries.¹¹²

Even though China’s relations with countries in Southeast Asia have been the focal point of claims about new PRC assertiveness for a number of reasons, including the South China Sea dispute, Xi continues to emphasize the importance of creating a community of common destiny in China’s neighborhood. As described in a 2014 *Xinhua* article, this

¹¹¹ Ferchen, “How New and Crafty.”

¹¹² “Xi Eyes More Enabling International Environment for China’s Peaceful Development,” *Xinhua*, November 30, 2014, http://news.xinhuanet.com/english/china/2014-11/30/c_133822694_4.htm.

idea of community is predicated on the supposed mutual benefits of increasing economic interdependence and Chinese investment in the region.¹¹³

Under Xi Jinping, China has expanded the existing peaceful development concepts through promotion of initiatives and institutions such as AIIB and the OBOR. Chinese led AIIB and OBOR projects are aimed at enabling more Chinese financing and investment in infrastructure projects designed to connect the region further along the so-called New Silk Road. Eventually, the Chinese hope infrastructure projects will connect Southeast Asia to the Middle East, Africa, and ultimately Europe. Through these initiatives, China's strategy for Southeast Asia becomes clearer. The PRC seeks to promote economic development, especially through regional infrastructure investment with the goal of raising its neighbors' development forecasts and by extension contributing to peace, stability, and regional security. Even if high-profile national projects, such as AIIB and OBOR, are interpreted as evidence of a new, more assertive Chinese economic diplomacy, leaders in Beijing continue to emphasize the merits of these projects within the peaceful development framework. In the same 2014 statement to the Central Foreign Affairs committee, Xi said, "We have worked hard to creatively pursue China's diplomacy in both theory and practice, highlight the global significance of the Chinese dream and enrich the strategic thinking of 'Peaceful Development.'"¹¹⁴

Despite PRC statements of "win-win" and "mutual benefits" of peaceful development, China faces challenges in Southeast Asia toward its economic policies. Many countries in the region with traditionally close economic and political ties to China are reevaluating their relationship with a more assertive Beijing. For instance, Myanmar's relations with China, once touted as the centerpiece of regional win-win ties, have shifted dramatically following Naypyidaw's opening and new diplomatic and economic interaction with the United States and Japan. Ferchen observes that in Sri Lanka, investment ties to China are facing increased scrutiny by the new government there due to fears of excessive influence by the PRC in the country.¹¹⁵ Following Chinese

¹¹³ Ibid.

¹¹⁴ Ibid.

¹¹⁵ Ferchen, "How New and Crafty."

acquisition of the National Grid Corporation of the Philippines, Roberts reports, the Filipino population shared similar fears of rising Chinese economic influence over the country's critical infrastructure.¹¹⁶ Beijing will have to confront these challenges and ease fears among its Southeast Asian neighbors for it to support expanded economic diplomacy.

Nie explains that while on the one hand Chinese strategy in Southeast Asia centers on promoting mutually beneficial development, increasing economic interdependence and contributions to regional stability, Chinese foreign policy under Xi Jinping has also aggressively pursued territorial interests in the South China Sea.¹¹⁷ Xi has moved Chinese foreign policy away from Deng's strategic policies of keeping a low profile and shelving disputes and joint development and has advocated a new policy of "striving for achievement," which in addition to pursuing ambitious projects like AIIB and OBOR, stresses protecting national sovereignty.¹¹⁸ In a 2016 *New York Times* article, Ives reports, some of Xi's aggressive South China Sea policy decisions include the May 2014 deployment of a Chinese HYSY-981 drilling platform into Vietnamese claimed economic exclusion zone and the transformation of the seven Spratly atolls under its control into massive artificial islands.¹¹⁹ According to Alexander, in a 2015 article for Reuters, recent imagery of these land reclamation projects strongly suggests Beijing is militarizing these islands.¹²⁰ Additionally in January 2013, China refused to participate in the legal case brought against it under the United Nations Convention on the Law of the Sea (UNCLOS) by the Philippines. The Philippine government challenged China's so

¹¹⁶ John Roberts, "Philippines Expels Chinese Power Grid Technicians," *World Socialist*, March 4, 2015, <https://www.wsws.org/en/articles/2015/03/04/phil-m04.html>.

¹¹⁷ Nie, "Xi Jinping's Foreign Policy," 423.

¹¹⁸ Xu Tong, "From Keeping a Low Profile," 166.

¹¹⁹ Mike Ives, "Vietnam Objects to Chinese Oil Rig in Disputed Waters," *New York Times*, January 20, 2016, https://www.nytimes.com/2016/01/21/world/asia/south-china-sea-vietnam-china.html?_r=0.

¹²⁰ David Alexander, "Pentagon Chief Urges End to Island Building in South China Sea," Reuters, May 28, 2015, <http://www.reuters.com/article/us-asia-usa-pentagon-idUSKBN0OC2L620150528>.

called “nine-dashed line” maritime claim in the South China Sea. *Xinhua* reports that the July 2016 verdict favored the Philippines, and it was immediately rejected by the PRC.¹²¹

The United States views Chinese activities in the South China Sea as a threat to freedom of navigation along some of the most critical sea lanes in the world. In an effort to ensure its leadership standing in the region, Washington has committed to confronting China in the South China Sea and pushing back wherever it can. As Nie explains, it has stepped up the number of freedom of navigation operations near Chinese artificial islands and has prioritized closer security cooperation with several Southeast Asian countries including the Philippines, Vietnam, Indonesia, and Singapore.¹²² These tensions increase the danger of unintended military confrontation between the United States and China (a direct threat to China’s continued economic development), risk isolating China by pushing its neighbors into closer relationships with America, and threatening other Chinese diplomatic efforts in the region, such as OBOR.

There seems to be disagreement within China as to which strategy the country should pursue in Southeast Asia. Some experts, such as Xu Liping, argue that China should prioritize upholding its claims in the South China Sea over other initiatives such as OBOR.¹²³ Wenjaun Nie claims that there is a group of experts who take the opposite view, arguing that OBOR is more important to Chinese interests than the South China Sea and that pursuing aggressive policies toward the dispute endangers economic diplomacy in the region. This second group of experts argues that Chinese policy makers should stabilize the situation in the South China Sea in an effort to lower the risk of military confrontation.¹²⁴

Ultimately, which strategy guides Chinese policy in Southeast Asia depends on Xi Jinping. Since the PRC is a highly centralized authoritarian system, foreign policy decision-making is crafted at the very highest levels of government. As president of

¹²¹ “Chinese Leaders Reject S. China Sea Arbitration Award,” *Xinhua*, July 12, 2016, http://news.xinhuanet.com/english/2016-07/12/c_135507946.htm.

¹²² Nie, “Xi Jinping’s Foreign Policy,” 433.

¹²³ “Experts: OBOR Should be Avoid Being linked with the South China Sea Issue,” *Ta Kung Pao*, May 2015, <http://news.takungpao.com/mainland/focus/2015-05/3001095.html>.

¹²⁴ Nie, “Xi Jinping’s Foreign Policy,” 424.

China and general secretary of the CCP, Jung-nam explains, Xi is responsible for directing his country's diplomatic policies and often personally announces important foreign policy decisions.¹²⁵ So far, Xi has repeatedly stressed the significance of OBOR. For example, Nie observes, during a speech at the Peripheral Diplomacy Work Conference in 2013, Xi highlighted why he saw OBOR as important. China has used international events, including the 2014 APEC Summit and 2016 G20 Summit, to emphasize its determination to begin implementing OBOR projects.¹²⁶ Furthermore, as reported by *Xinhua* in March 2016, Xi mandated that OBOR be incorporated into China's national development agenda and the initiative was featured prominently in China's 13th Five-Year Plan, which is the framework China will use to guide its economic, political, and diplomatic efforts from 2016–2020.¹²⁷

While OBOR is viewed as having increasing national significance, the PRC has been much more ambiguous about the importance of territorial claims in the South China Sea to its overall foreign policy agenda. Under Xi Jinping, the dispute's significance to Beijing may be diminishing. In a 2010 article, Wong reported that China first identified territorial claims in the South China Sea as “core interests” during a private meeting between U.S. and Chinese officials in 2010.¹²⁸ As reported in *The Australian*, during a 2010 meeting with U.S. Secretary of State Hillary Clinton, senior Chinese diplomat Dai Bingguo also described the South China Sea as a core interest.¹²⁹ This raised a number of concerns among countries in the region and among U.S. policy makers. Historically as Nie describes, China has only used the characterization of “core interest” when describing Taiwan, Tibet, and Xinjiang. Beijing consistently demonstrated that it was not prepared to compromise its position on core interests and often expressed willingness to

¹²⁵ Lee Jung-nam, “Outlook on Chinese Foreign Policy I the Coming Era of Xi Jinping from China's Prospective,” *Korean Journal of Defense Analysis* 24, no. 3 (2012): 375.

¹²⁶ Nie, “Xi Jinping's Foreign Policy Dilemma,” 430.

¹²⁷ “The Thirteenth Five-Year Plan.” *Xinhua*, March 18, 2016, http://sh.xinhuanet.com/2016-03/18/c_135200400_12.htm.

¹²⁸ Edward Wong, “Chinese Military Seeks to Extend Its Naval Power,” *New York Times*, April 23, 2010, <http://www.nytimes.com/2010/04/24/world/asia/24navy.html>.

¹²⁹ See Hillary Rodham Clinton, Interview with Greg Sheridan of *The Australian*, Melbourne, Australia, November 8, 2010, <http://www.theaustralian.com.au/national-affairs/china-actions-meant-as-test-hillary-clinton-says/news-story/bbce0c20fb6caa5071c56de35c567c9d>.

use force in these instances.¹³⁰ After 2010, Nie explains, Chinese officials backed away from this claim, and following Xi Jinping's assumption of power, the PRC has not definitively stated if considers the South China Sea to be a core interest.¹³¹ Taken together, the evidence seems to suggest that China will focus efforts on regional economic development through efforts like OBOR and AIIB while seeking to lessen tensions in the South China Sea through bilateral negotiations. The following section of the chapter examines how the Chinese have applied this regional strategy toward relations with the Philippines.

B. CHINESE STRATEGY IN THE PHILIPPINES

Prior to normalization of relations between China and the Philippines in 1975, Sino-Philippine relations were extremely contentious. Manila recognized the Kuomintang government in Taiwan and considered it a close friend while the PRC was viewed as a threat. Relations between the Philippines and its traditional allies have also faced challenges. Corr and Tacujan describe that since the 1986 People Power Revolution, which removed President Ferdinand Marcos from power and restored democracy, the Philippines' alliance with the United States and its relations with Japan and other ASEAN countries have encountered fractious disagreements.¹³² At the same time, bilateral relations between Manila and Beijing have slowly improved. China increased its political influence in the Philippines through aggressive action in the South China Sea while also expanding economic interdependence between the two countries.

China applies similar strategies toward the Philippines as it does with other Southeast Asian countries. When it can, Beijing emphasizes its good neighbor policy through its preference of using carrots to influence behavior. Typically, this includes offers to finance development projects and technical cooperation all aimed at rewarding policy that aligns with Chinese interests. Conversely, China has been much more aggressive over maritime claims. It has placed political and economic pressure on the

¹³⁰ Nie, "Xi Jinping's Foreign Policy," 436.

¹³¹ Ibid.

¹³² Corr and Tacujan, "Chinese Political and Economic Influence."

Philippine government while consistently demanding negotiation over the South China Sea dispute be conducted on a bilateral basis. Which approach China takes largely depends on how it perceives Philippine government actions. For instance, China rewarded the Arroyo and Duterte administrations after each implemented more pro-China policies; however, it punished the Aquino administration when his government pivoted toward the United States and took a much firmer stance toward Beijing over maritime disputes. The next portion of the chapter explores how Chinese strategy toward the Philippines shifted based on the characteristics of the last three Philippine presidential administrations—Gloria Arroyo, Benigno Aquino, and Rodrigo Duterte. It also describes what tactics China has used to either reward or punish Philippine policy.

C. SINO-PHILIPPINE CONFRONTATION DURING THE AQUINO ADMINISTRATION

Much of the Philippine policy that China has sought to punish has been focused on maritime territorial disputes around the Spratly Islands and other island groupings in the South China Sea. The South China Sea dispute is not new phenomenon but has been at the center of Sino-Philippine relations for several decades. Mingliang writes that in 1970, under the Marcos administration, Manila began asserting its territorial claims in the region by sending its military to occupy some islands in the South China Sea.¹³³ In 1995, China stepped up military activities in the Spratly Islands by building military structures on the Philippine-claimed Mischief Reef. Baviera asserts that the Philippines viewed Chinese territorial claims as excessive, and these claims cast doubt on Beijing's assurances of being a benign, non-expansionist state.¹³⁴ Also according to Baviera, China's rising economic power, coupled with the territorial dispute, concerned Filipino policy makers who saw some sectors of their economy as being negatively affected by this rise.¹³⁵

¹³³ Zhang Mingliang, "South China Sea Dispute and Sino-Filipino Relation." *China's Borderland History and Geography Studies* 13, no. 2 (2003): 5–19.

¹³⁴ Aileen San Pablo-Baviera, "Perceptions of a China Threat: A Philippines Perspective," in *The China Threat: Perceptions, Myths and Reality*, ed. Herbert Yee and Ian Storey (New York: Routledge Curzon, 2002), 252.

¹³⁵ *Ibid.*, 251.

As a result of China's more aggressive action in the region, the Philippines adopted a hedging strategy by strengthening its security ties with the United States and Japan. During the height of Sino-Philippine tensions in 2012, according to a 2012 *Asian Survey* article, the Aquino administration raised the prospect of invoking the 1951 Philippines-United States Mutual Defense Treaty if there were military clashes in the Spratlys.¹³⁶ Aquino pursued a proactive foreign policy centered on promoting the Philippine's maritime interests and territorial rights in the South China Sea. In January 2012, the Philippine government announced that it would likely grant the U.S. military greater access to facilities in the Philippines, such as Subic Bay and Clark Air Field, for logistical support and repair activities. Manila has also sought military support from Japan. Both countries signed the Statement of Intent of the Greater Defense Cooperation Agreement in 2012, which according to an article by Amurao, provided 12 patrol boats to the Philippine Coast Guard as well as the transfer of two larger vessels.¹³⁷

Under President Aquino, the Philippines mounted a major challenge to China by filing a case at the Permanent Court of Arbitration in which it sought affirmation of its claims in the South China Sea. The case also sought to invalidate China's large claim indicated by the Nine-Dash Line. These actions incensed Beijing and caused it take several measures to punish the Philippines. For instance in 2013, Majid explains, President Aquino was unable to attend an important trade exposition in China because, according to Filipino officials, conditions were attached to the visit, including dropping the Philippines' arbitration case.¹³⁸ This rebuffing by China was an embarrassment to the Aquino government.

Growing economic ties between the two countries has created opportunity for China to use its economic influence in the Philippines to achieve foreign policy objectives. As reported by Corr and Tacujan, China is now the Philippines' largest

¹³⁶ Renato Cruz De Castro, "The Philippines in 2011: Muddling through a Year of Learning and Adjustment," *Asian Survey*, 52, no. 1 (2012): 217.

¹³⁷ George Amurao, "Philippines Arms Itself with New Packs," *Asia Times Online*, August 1, 2012, http://www.atimes.com/atimes/Southeast_Asia/NH02Ae01.html.

¹³⁸ Majid, "Southeast Asian View," 400.

trading partner with trade reaching 36 billion USD in 2012.¹³⁹ The Chinese market is extremely important to Filipino exporters. In 2012, 21 percent of Philippine exports went to China, 19 percent to Japan, and 12 percent to the United States. Through Philippine exporters, Corr and Tacujan posit, China now has more economic influence in the country.¹⁴⁰ In 2012, China used this leverage to push back against Aquino administration policy during the height of tensions over the South China Sea in a number of ways. As the fourth largest source of tourism to the Philippines, Bodeen states, Chinese travel agencies issued a travel advisory and suspended tours while Chinese airlines simultaneously reduced the number of flights into the country.¹⁴¹ In May 2012, China banned many fruit imports from the Philippines. Higgins reported in 2012, that over 1,200 shipping containers of bananas were left to rot in Chinese ports over “quarantine concerns.”¹⁴² In addition, as Higgins notes in a 2012 article, a lack of Chinese buyers led to massive layoffs affecting almost 200,000 Filipino workers.¹⁴³ China also subjected pineapples from the Philippines to increased inspections, slowing down the product’s entry into the Chinese market. In another incident, the Chinese Coast Guard enforced a ban on fishing near Scarborough Shoal by chasing away Filipino fishermen with water cannons. The ban has endangered the livelihoods of some 4,000 Masinloc-based fishermen, who were forced to fish in nearby municipal waters and compete with others over a dwindling catch.¹⁴⁴ Finally, when Xi Jinping announced the ambitious OBOR and accompanying Maritime Silk Road projects in 2013, the Philippines was not invited to participate—denying Manila access to potentially large sources of new economic investment and infrastructure construction.¹⁴⁵

¹³⁹ Corr and Tacujan, “Chinese Political and Economic Influence.”

¹⁴⁰ Ibid.

¹⁴¹ Christopher Bodeen, “China Travel Agencies Suspend Trips to Philippines,” *Inquirer*, May 10, 2012, <http://globalnation.inquirer.net/36217/china-travel-agencies-suspend-trips-to-philippines>.

¹⁴² Andrew Higgins, “In Philippines, Banana Growers Feel Effect of South China Sea Dispute,” *Washington Post*, June 10, 2012, http://articles.washingtonpost.com/2012-06-10/world/35461588_1_chinese-fishermen-president-benigno-aquino-iii-south-china-sea.

¹⁴³ Ibid.

¹⁴⁴ Corr and Tacujan, “Chinese Political and Economic Influence.”

¹⁴⁵ Joe T. Delizo, “China Sees Key Role for the PH in ‘Belt and Road’ Initiative,” *The Manila Times*, December 2, 2016, <http://www.manilatimes.net/china-sees-key-role-ph-belt-road-initiative/299520/>.

The objective of these Chinese tactics was to pressure the Philippines' democratically elected officials to change their policies in the South China Sea by hurting key blocks of constituents. Chinese tactics had mixed results. In terms of economic effect, the tourist advisory and banana restrictions were low-cost ways for China to put pressure on the Philippines. Filipino business leaders became apprehensive and asked government officials to quickly reduce tensions with China.¹⁴⁶ Beijing's punishment strategy achieved success in that it still controls access to the Scarborough Shoal, which it did not before the standoff.¹⁴⁷ Chinese strategy was not successful in that it strengthened domestic support for Aquino administration. The Filipino public rallied around President Aquino in the face of Chinese bullying and offered support toward strengthening the country's security cooperation with the United States.¹⁴⁸

D. SINO-PHILIPPINE COOPERATION DURING THE ARROYO AND DUTERTE ADMINISTRATIONS

While Chinese actions taken during the Aquino administration offer clear evidence of a strategy to use its economic and political influence to pressure Manila into adopting policies that are more to China's liking, it is not the only strategy Beijing applies in its relations with the Philippines. China has also attempted to co-opt the Philippines under peaceful development, the good neighbor policy, and more recently, through the strategy of "striving towards achievement" with its attached economic initiatives of AIIB and OBOR. China has consistently used economic incentives to try to increase interdependency between the two countries and reward Philippine behavior that aligns with Chinese goals.

The golden age of China's good neighbor policy toward the Philippines took place during the Arroyo administration. In 2004, President Arroyo made a state visit to

¹⁴⁶ Renato De Castro, "The Philippines Confronts China in the South China Sea: Power Politics vs. Liberalism-Legalism," *Asian Prospective* 39, no. 1 (2015): 87.

¹⁴⁷ Oda Opdal Zachrisen, "China's Political Use of Economic Ties in Territorial Disputes," June 2015, <https://brage.bibsys.no/xmlui/bitstream/handle/11250/2359406/Zachrisen,%20Oda%20Opdal.pdf?sequence=1>.

¹⁴⁸ Renato Cruz De Castro, "The Aquino Administration's Balancing Policy against an Emergent China: Its Domestic and External Dimensions," *Pacific Affairs* 87, no. 1 (2014): 18.

China where she and Chinese Premier Wen Jiabao agreed to conduct joint maritime resource exploration instead of focusing on regional territorial disputes.¹⁴⁹ As Zhao discusses, this was a departure from the policy of Arroyo's predecessor, President Fidel Ramos, who took a strong anti-China position over the Spratly dispute.¹⁵⁰ In his 2012 article, Zhao notes that Arroyo and Wen also agreed to expand security cooperation, including search and rescue, disaster mitigation, and joint training exercises. Significantly, they seriously considered joint exploration in the South China Sea when the Philippines National Oil Company and Chinese National Offshore Oil Company signed an agreement to conduct joint seismic studies in the area.¹⁵¹ After 2005, Sino-Philippine relations continued to improve through increased security cooperation and frequent high-level visits and exchanges. During the Arroyo administration, the Philippines also strengthened its economic ties to China.¹⁵² The two nations agreed to a series of infrastructure projects, most of which were financed through Chinese development assistance programs. These included the 503 million USD North Luzon Railway project and 329.5 million USD for a Philippine government initiative to establish a national broadband network.¹⁵³ As Miriam Grace Go notes in her 2008 article, "Arroyo visited China nine times between 2001 and 2009 and signed 65 bilateral agreements with China," far more than any of her predecessors.¹⁵⁴

China has reapplied the tenets of PD and the good neighbor policy under the current Philippine administration. This is mostly because Philippine foreign policy under President Rodrigo Duterte has been a near reversal from that of the Aquino administration. Duterte has already signaled his intent to improve bilateral relations with China while using extremely critical rhetoric towards the United States. There are several

¹⁴⁹ Corr and Tacujan, "Chinese Political and Economic Influence."

¹⁵⁰ Hong Zhao, "Sino-Philippines Relations: Moving Beyond South China Sea Dispute?" *The Journal of East Asian Affairs* 26, no. 2 (2012): 58.

¹⁵¹ Ibid, 70.

¹⁵² Zha, "Personalized Foreign Policy," 250.

¹⁵³ Ibid.

¹⁵⁴ Miriam Grace A. Go, "Arroyo Government Pleasing China Since Day One," *ABC-CBS News*, March 14, 2008, <http://news.abs-cbn.com/special-report/03/14/08/policy-betrayal-first-three-parts>.

key pieces of evidence that suggest the Philippines will now try to take advantage of Xi Jinping's economic initiatives like OBOR at the expense of its territorial claims in the South China Sea. First is Manila's muted response to the Arbitral Tribunal award. In July 2016, the tribunal decisively declared, "China's Nine-Dash Line claim had no basis in international law and was incompatible with UNCLOS."¹⁵⁵ Bautista argues this represented an important moral victory for the Philippines;¹⁵⁶ however, not surprisingly, China refused to recognize the findings. While there was initially hope that this victory would encourage the Philippines to call on other nations to enforce the ruling and pressure China to reverse course in the South China Sea, the Duterte administration took the opposite approach. After the verdict was announced, Philippine Foreign Affairs Secretary Perfecto Yasay called for "restraint and sobriety," falling in line with the president's policy of "no taunt, no flaunt."¹⁵⁷ Esmaguél II believes that the Philippine government carefully crafted its messaging to lessen the blow of a ruling against China.¹⁵⁸ As discussed in a 2016 article in the *Official Gazette*, Duterte also abandoned the previously dominant narrative of characterizing Chinese aggressive action in the South China Sea as evidence of Chinese hegemonic expansionism. Instead, he favors direct negotiation with China, and there is evidence to suggest that he might be open to setting aside territorial disputes if the PRC provides economic incentives.¹⁵⁹

The Philippines' new foreign policy direction dovetails nicely with PRC narratives of the mutual benefits of peaceful development as well as Xi's policy of "striving for achievement." When OBOR and Maritime Silk Road were unveiled in 2013,

¹⁵⁵ Lowell Bautista, "The Philippine and the Arbitral Tribunal's Award: A Somber Victory and Uncertain Times Ahead," *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 38, no. 3 (2016): 350.

¹⁵⁶ Ibid.

¹⁵⁷ Ruth Abbey Gita, "Don't 'Taunt or Flaunt' Arbitral Ruling on West Philippine Sea," *SunStar Manila*, June 30, 2016, <http://www.sunstar.com.ph/manila/local-news/2016/06/30/dont-taunt-or-flaunt-arbitral-ruling-west-philippine-sea-482539>.

¹⁵⁸ Paterno Esmaguél II, "Philippines Calls for Restraint, Sobriety amid Favorable Ruling on Sea Row," *Rappler*, July 12, 2016, <http://www.rappler.com/nation/139499-ph-restraint-sobriety-ruling-south-china-sea>.

¹⁵⁹ "President Duterte Says He'll Forge Strong Trade Alliance with Chinese, Russian Businesses," *Official Gazette*, September 26, 2016, <http://www.gov.ph/2016/09/26/president-duterte-says-hell-forge-strong-trade-alliance-with-chinese-russian-businesses/>.

the Philippines was excluded due to tensions in the South China Sea. Duterte's pro-China shift has led Beijing to invite the Philippines to join the initiative. In a December 2016 interview, Chinese academic Song Qingrun stated,

Now your president has friendly relations with China. During President Duterte's visit to China, the two presidents agreed for more cooperation, and for joining the 21st Century Maritime Silk Road. This is a very good and important step for our country (China) to expand coverage.¹⁶⁰

During his first state visit to China in October 2016, Duterte signed several deals resulting in new investment and financing agreements. These agreements totaled 24 billion USD across various industries, "including manufacturing, agribusiness, trade, finance, hotels, telecommunications, tourism, transportation, and infrastructure."¹⁶¹ Romero and Mercurio reported in 2016 that the Philippine government expects that by 2021, these agreements would have eventually translated into the creation of at least two million Philippine jobs.¹⁶² Following Duterte state visit, China also stopped barring Filipino fishermen from operating around the Scarborough Shoal.¹⁶³ This was a significant political victory for the Filipino president. Commenting on this development, Alexander Huang strategic studies professor at Tamkang University in Taiwan stated,

The Chinese are investing heavily in providing aid, economic support, and infrastructure investment. They are trying to show on one hand China's strength in doing so and on the second to dissuade other countries from disputing China over the South China Sea.¹⁶⁴

All of these agreements and promises of new economic investment demonstrate Beijing's propensity to reward friendly Philippine administrations, like those of Presidents Arroyo

¹⁶⁰ Delizo, "China Sees Key Role."

¹⁶¹ Alexis Romero and Richmond Mercurio, "Philippines, China Sign \$24-B Deals," *The Philippine Star*, October 22, 2016, <http://www.philstar.com/headlines/2016/10/22/1636102/philippines-china-sign-24-b-deals>.

¹⁶² Ibid.

¹⁶³ Ana Santos, "China is No Longer Ruining Their Livelihoods, but These Filipino Fishermen Aren't Entirely Grateful," *Los Angeles Times*, November 21, 2016, <http://www.latimes.com/world/asia/la-fg-philippines-fishing-20161119-story.html>.

¹⁶⁴ Ralph Jennings, "China May Offer Aid, Investment, in Talks on South China Sea," *Voa News*, February 24, 2017, <http://www.voanews.com/a/china-may-offer-aid-investment-in-south-china-sea-talks/3738132.html>.

and Duterte, when their foreign policy aligns with the China's interests. As these examples illustrate, China uses multiple economic and political tools, including leveraging ODI, trade, and inclusion in ambitious national projects, such as OBOR, to encourage the Philippines to adopt pro-Chinese policies.

For the most of their diplomatic relationship since 1975, China considered the Philippines as merely peripheral to its overall interests in Southeast Asia. Historically, recognizing there was some commodity exchanges between the two countries, the Philippines existed largely outside China's trade interests.¹⁶⁵ Now, however, China is working to increase its economic and political influence in the Philippines. Its strategy toward the Philippines is mostly consistent with the strategy Beijing applies to the Southeast Asian region as a whole—it aggressively pursues its territorial interests in the South China Sea while also broadcasting clear signals of goodwill and cooperation through pledges of joint development and mutual prosperity. China has applied tactics to punish Philippine resistance to Chinese actions in the South China Sea as evidenced by the pressure applied to the Aquino administration. Conversely, when Philippine administrations adopted pro-Chinese foreign policy positions, Beijing has offered economic benefits under the peaceful development policy and *striving for achievement*. Since his inauguration in June 2016, it seems that President Duterte is following former President Gloria Arroyo's example by taking a softer position on the South China Sea dispute and instead is pursuing closer political and economic ties with its larger neighbor. Much more time is needed before concluding whether this strategy leads to greater Chinese investment, trade, and more importantly, greater prosperity for the Filipino people.

¹⁶⁵ Zhenping Wang, "Reading Song-Ming Records on the Pre-Colonial History of the Philippines," *China Quarterly of International Strategic Studies* 1, no. 1 (2008): 251.

IV. UNIQUE CHARACTERISTICS OF CHINESE CAPITAL FLOWS

When discussing the topic of Chinese international investment, especially as it pertains to Chinese acquisitions of companies working in sensitive or strategic industries, scholars inevitably wrestle with the question of who exactly is sitting in the driver's seat, the Chinese state (as represented by the CCP and all of its institutions) or the Chinese company? While the concepts of economic nationalism and multinational corporations working toward a common national interest are not new, China's ability to motivate, direct, and to some extent control the foreign investment activity of its commercial actors over the past 15 years has been without precedent. Underpinning this capability is a policy framework emanating from various CCP agencies that emerged shortly after China adopted the Going Out strategy and has evolved to keep pace with China's increasingly active commercial actors. This chapter examines the significant aspects of that policy framework and highlights those mechanisms that support/allow for Chinese state control over its commercial actors' foreign investment activity. Understanding how these mechanisms of direction and control function is critical to interpreting the significance of various Chinese investments in the Philippines, which is introduced in the following chapter.

Numerous scholars have sought to classify the rationale and motivations behind Chinese firms operating and/or investing overseas.¹⁶⁶ From their work, it is possible to see a general consensus in the field that Chinese firms are internally and externally motivated to operate overseas as to achieve the following five objectives:

1. Obtain natural resources, raw materials, and manufacturing inputs.
2. Open and access new, unsaturated markets for Chinese goods and labor.

¹⁶⁶ For the best primary sources, see Wood and Brown, *China ODI*, 29–30; Salidjanova, Nargiza, *Going Out: An Overview of China's Outward Foreign Direct Investment* (Washington, DC: U.S.-China Economic and Security Review Commission, 2011), 6–11; Daniel H. Rosen and Thilo Hanemann, *China's Changing Outbound Foreign Direct Investment Profile: Drivers and Policy Implications* (Policy Brief 09-14) (Washington, DC: Peterson Institute for International Economics, 2009), <http://www.iie.com/publications/pb/pb09-14.pdf>, 7–11; Peter J. Buckley, "The Determinants of Chinese Outward Foreign Direct Investment," *Journal of International Business Studies* 38, no. 4 (2007): 499–518.

3. Acquire strategic assets like advanced technologies, brands, and expertise.
4. Diversify their operations and build “national champion” brand recognition and market share.
5. Attain greater efficiency and/or overcome trade barriers.

However, these Chinese-specific motivations are virtually identical to what J. H. Dunning proposed as far back as 1977,¹⁶⁷ upon which general FDI theory has been built. So if Chinese firms are pursuing virtually the same objectives through FDI that firms from every other country are, what makes Chinese investment uniquely concerning for some host countries? The difference appears to be in the perception that Chinese firms are not acting independently in pursuit of these objectives; rather, the motivations of the firms are intertwined with and heavily influenced by the Chinese state. This perception is supported by two well documented facts discussed below: 1) the Chinese government actively directs and incentivizes overseas economic activity, and 2) there is a high degree of connectivity between the CCP and the corporate leadership of the SOEs that do the bulk of this overseas investment.

A. REGULATORY FRAMEWORK AND STATE GUIDANCE

Since 1999, China has built a large state apparatus and regulatory framework to support the overseas activity of its public and private firms in order to nurture their global competitiveness and ensure that such activity contributes to the country’s national development and foreign policy agendas.¹⁶⁸ Within this apparatus, there are several elements worth highlighting to demonstrate how involved the Chinese state is with the overseas activities of its commercial firms.

1. State Guidance

Chinese firms are provided with state guidance on what countries and sectors to invest in. In July 2004, China’s National Development and Reform Commission

¹⁶⁷ John H. Dunning, “Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach,” in *The International Location of Economic Activity*, ed. Bertil Ohlin, Per-Ove Hesselborn, and Per Magnus Wijkman (London: Macmillan, 1977), 395–418.

¹⁶⁸ Karl Sauvant and Victor Zitian Chen, “China’s Regulatory Framework for Outward Foreign Direct Investment,” *China Economic Journal* 7, no. 1 (2013): 141–142.

(NDRC), in concert with the Ministry of Foreign Affairs (MOFA) and Ministry of Commerce (MOFCOM), issued a *Guidance Catalog on Countries and Industries for Overseas Investment*. Like its name suggests, this document provides clear guidance on the national priorities for overseas investment and even promises preferential treatment (financial, insurance, tax, customs, etc.) for any enterprise complying with the catalog.¹⁶⁹ This list of priorities was later updated with a subsequent releases in October 2005 and January 2007. Additionally, MOFCOM, NDRC, and MOFA began publishing an annual *OFDI Guidebook of Countries for International Investment and Cooperation* in 2008 that highlights host country development priorities and incentive programs in order to further facilitate ODI flows.¹⁷⁰

2. Preferential Treatment

Chinese firms that invest or operate overseas can qualify for preferential loans, subsidies, tax credits, and insurance. In 2003, in concert with the NDRC, the Export-Import Bank of China (EXIM Bank) established a special funding line to provide preferential loans for Chinese firms investing overseas. From 2007 to 2011, the State Administration of Taxation rolled out a series of policies to provide tax deductions and exemptions in support of the Going Out strategy. Then, in 2012, the MOF and MOFCOM established a special fund to provide direct subsidies to qualifying overseas investments. Finally, Chinese firms are also able to obtain additional protection for their investments overseas through the China Export and Credit Insurance Corporation (SINOSURE), a state funded and policy oriented insurance company.¹⁷¹ The sum total of these incentives serve to provide Chinese firms with a competitive advantage when attempting to invest or bid on projects overseas.

¹⁶⁹ Heino Klinck, *The Strategic Implications of Chinese Companies Going Global* (Fort Leavenworth, KS: Foreign Military Studies Office, 2012), 7.

¹⁷⁰ Sauvant and Chen, “China’s Regulatory Framework,” 153.

¹⁷¹ *Ibid.*, 152–153.

3. Central Approvals Process

There is a complex, central approvals process governing overseas investment. The regulatory guidance pertaining to central government approval of overseas investment has evolved greatly over the past 15 years. While many of the changes have sought to simplify and streamline the approvals process, under the current policy the NDRC and MOFCOM both retain the authority to approve investments greater than 300 million USD in natural resources and 100 million USD in other sectors. While unwieldy and potentially unsustainable, this process does give the central government the ability to direct Chinese investment into countries and sectors areas that it considers a priority.¹⁷²

4. Foreign Aid

China's foreign aid/assistance programs facilitate opportunities for overseas expansion and contracting. A unique and well documented aspect of Chinese foreign aid/economic assistance is that such deals often stipulate that a bulk of the loaned money be spent on Chinese labor and materials.¹⁷³ This allows Chinese firms the opportunity to expand their operations overseas through the preferential awarding of construction contracts under the auspices of China's foreign aid programs.¹⁷⁴

B. THE CHINESE COMMUNIST PARTY AND STATE-OWNED ENTERPRISES

The second potentially disturbing aspect of Chinese economic activity overseas is the high degree of connectivity between the CCP and the leadership of the SOEs that do the bulk of this activity. This is worrisome for two reasons. First, the direct line of control from the CCP to the SOE leadership calls into question the independence of the commercial actor and thereby implicitly taints their commercial activities with the perception of statecraft. Second, through their participation and membership in the

¹⁷² Ibid., 145–150.

¹⁷³ Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools* (Occasional Paper 4) (Washington DC: Institute for National Strategic Studies, 2006), 12.

¹⁷⁴ Andreas Lunding, "Global Champion in Waiting: Perspectives on China's Overseas Direct Investment," Deutsche Bank Research, August 4, 2006, http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000201318.pdf, 6.

Communist Party, SOE executives can accumulate significant *guanxi*, or political connections, that be used to influence foreign policy vis-à-vis countries in which these SOEs are operating. Significant aspects of this CCP-SOE connectivity are highlighted below.

1. Parallel CCP Structure

Every SOE has a CCP authority structure parallel to the board of directors. This alternative structure is called the Party Committee and is headed by a party secretary. Occasionally, the party secretary and party committee members also serve as the chair or directors of the board; however, where this overlap does not occur the real power flows through the party structure, not the board. Furthermore, as Wood and Brown note, SOE managers are more beholden to this party structure than they are to the interests of shareholders.¹⁷⁵

2. CCP Appointment

The CCP Central Organization Department directly appoints the executives of all ministry-level SOEs, which are then confirmed/approved by the CCP Central Committee.¹⁷⁶ It has also been noted that many SOE leaders also hold concurrent ministerial or vice-ministerial rank and even serve as alternate members of the CCP Central Committee,¹⁷⁷ which is basically an enlarged board of directors for the entire Chinese Communist Party.

3. CCP Advancement

Serving in SOE leadership positions is a stepping stone for advancement within the CCP. As a result of China's commitment to transforming its best SOEs into "national champions," the top leadership spots within these SOEs have become prestigious

¹⁷⁵ Wood and Brown, *China ODI*, 31.

¹⁷⁶ Klinck, *The Strategic Implications*, 11.

¹⁷⁷ Linda Jakobson and Dean Knox, *New Foreign Policy Actors in China* (SIPRI Policy Paper No. 26) (Solna, Sweden: Stockholm International Peace Research Institute, 2010), <http://books.sipri.org/files/PP/SIPRIPP26.pdf>, 25.

stepping stone positions for rising stars within the CCP.¹⁷⁸ The international experience, political connections, and business savviness these executives possess make them increasingly more attractive recruits for the next wave of CCP leadership.¹⁷⁹

4. SOE Leadership and Foreign Policy

SOE leaders are members of official foreign policy decision-making bodies.¹⁸⁰ Due to their technical expertise and experience in international business dealings, senior SOE executives are often called to consult on foreign policy deliberations, allowing them to exert limited influence on these foreign policy decisions.¹⁸¹ This chapter began with a question regarding who is really driving Chinese foreign investment activity: the Chinese state or the Chinese company. As this chapter is shown, the answer is a little of both. While it would be wrong to assume the CCP Politburo is behind *every* takeover of a foreign company, it would be equally wrong to assume Chinese companies are exhibiting purely profit-seeking behavior in a laissez-faire political economy. Rather, the reader should acknowledge that the Chinese government 1) has policies in place that allow it to motivate, direct, and underwrite foreign investment by its commercial actors, 2) has built a CCP presence into the organizational structure of its SOEs, and 3) is able to exploit the conditions set by the previous two to control the activities of its commercial actors when there is unity amongst the various CCP bureaucracies.¹⁸² The implication of acknowledging these facts then requires that each foreign investment be viewed from two points of view, that of the Chinese commercial actor and that of the Chinese state, in order to grasp the full economic and geopolitical effects of a given investment.

¹⁷⁸ Norris, *Chinese Economic Statecraft*, 80–81.

¹⁷⁹ Cheng Li, “China’s Midterm Jockeying: Gearing Up for 2012 (Part 4: Top Leaders of Major State-Owned Enterprises),” *China Leadership Monitor*, no. 34 (February 2011).

¹⁸⁰ Zhiyue Bo, *China’s Elite Politics: Governance and Democratization* (Singapore: World Scientific, 2010), 122.

¹⁸¹ Jakobson and Knox, “New Foreign Policy,” 24.

¹⁸² Norris, *Chinese Economic Statecraft*, 223.

V. EMPIRICAL ANALYSIS OF CHINESE INVESTMENT IN THE PHILIPPINES

This chapter begins our empirical analysis of Chinese investment in the Philippines by examining the 41 instances of investment included in our dataset. As noted in the methodology section, we have classified each of the instances of investment into one of three categories (outward direct investment, international construction contracting, or international service provision), which represent the three prongs of China's Going Out strategy. We examine each of these three categories in detail then address the question of whether or not these investments are truly win-win for both China and the Philippines. Finally, we examine the five instances of failed investment in our dataset and hypothesize what they potentially say about Chinese state control over the actions of its commercial actors.

A. CONSTRUCTION CONTRACTING AND INFRASTRUCTURE PROJECTS

The majority of Chinese investment in the Philippines has consisted of construction contracting and infrastructure projects. According to the dataset, from 2007 to 2016, Chinese firms engaged in eight large-scale construction contracting projects in the Philippines, representing 72 percent of the documented Chinese economic activity in the Philippines during that period. These projects ranged in value from 94 million USD to 1.4 billion USD and resulted in an aggregate value of 4.666 billion USD. It is interesting to note that these eight projects focused exclusively on the energy and utility sectors. Chinese firms built or upgraded five coal burning power plants, constructed one hydroelectric plant, repaired and upgraded the water transmission system from Angat dam to Metro Manila, and constructed a dam on the Agno River for agricultural irrigation. As discussed in further detail below, each of these projects were executed by subsidiaries of China's largest SOEs.

Although it is extremely difficult to accurately classify the recently publicized deals announced during President Duterte's state visit to China in October 2016, it appears as though at least 15 of them are construction contracting and/or infrastructure

development pledges. In contrast to previous construction projects executed by Chinese firms in the Philippines, only two of these proposed deals are in the energy sector: one hydroelectric plant and a biomass power generation plant. Instead, the remainder of the proposed deals focus on transportation infrastructure including rail, bus, roads, bridges, and multiple port development projects. This could represent a shift in development priorities for both countries and certainly supports China's OBOR initiative to promote regional connectivity through development of transportation related infrastructure.¹⁸³

It is in this realm of construction contracting where it becomes difficult to separate China's foreign aid and government-sponsored investment programs from the purely commercial operations of its state owned enterprises. At least two of the already completed construction projects (Agno River dam/irrigation project and the Manila waterworks project) were both funded via concessional loans from the Export-Import Bank of China, making them instances of official development assistance. Likewise, to facilitate the multitude of proposed deals resulting from the 2016 state visit, China pledged 9 billion USD in "soft loans" from an unspecified combination of its banks. This source of the funding is important because Chinese aid typically comes with a stipulation that a bulk of the loaned money be spent on Chinese materials and labor—all but guaranteeing that a Chinese firm wins the bid for the project.¹⁸⁴ Thus, these foreign aid deals not only increase China's diplomatic leverage within the host country, but they also create a steady supply of overseas opportunities for China's commercial actors.¹⁸⁵

B. DIRECT INVESTMENT: MERGERS AND ACQUISITIONS

There have been few documented cases of Chinese companies merging with, acquiring, or partnering with Philippine firms. While data on Chinese outward direct investment can be found in the aggregate, pinpointing the individual deals and commercial actors that comprise that aggregate is extremely difficult. Within our dataset,

¹⁸³ Derek Scissors, "Record Chinese Outward Investment in 2016: Don't Overreact," American Enterprise Institute, January 2017, <https://www.aei.org/publication/record-chinese-outward-investment-in-2016-dont-overreact/>.

¹⁸⁴ Saunders, *China's Global Activism*, 12.

¹⁸⁵ Reilly, *China's Economic Statecraft*, 6.

there have only been two documented cases of successful Chinese acquisition of Philippine companies and three failed attempts. The most notorious case was the 2007 State Grid Corporation of China (SGCC) 1.58 billion USD joint venture with Philippine partners Monte Oro Grid Resources Corporation and Calaca High Power Corporation that resulted in SGCC owning 40 percent of the newly formed National Grid Corporation of the Philippines (NGCP), as seen in Figure 3.¹⁸⁶

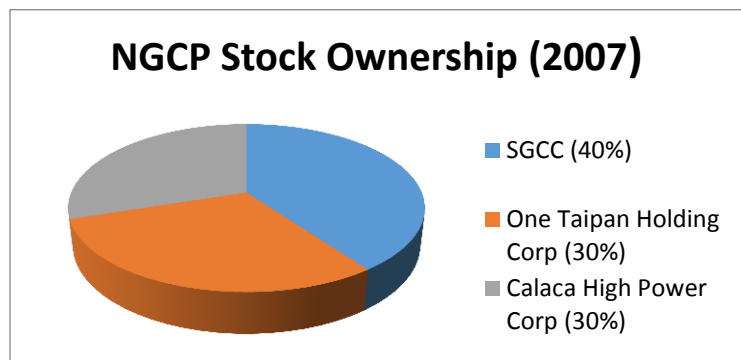


Figure 3. NGCP Ownership Percentages in 2007

The second successful case occurred in 2010 when China-ASEAN Marine BV secured a “controlling stake” in Philippine shipping and ferry operator Negros Navigation Co., now known as the 2Go Group. China-ASEAN Marine BV is a wholly owned unit of the China-ASEAN Investment Cooperation Fund, a private equity fund launched by the Export-Import Bank of China.¹⁸⁷

Both of these acquisitions are seen as being potentially sensitive due to the fact that they resulted in Chinese control of assets relevant to national security. In 2012, Philippines Interior and Local Government Secretary Manuel Roxas II, citing security

¹⁸⁶ State Grid Corporation of China, “State Grid Corporation of China Granted 25 Years-Franchise of National Grid of the Philippines,” January 18, 2009, <http://www.sgcc.com.cn/ywlm/gsyw-e/183534.shtml>.

¹⁸⁷ “Chinese Firm to Become Top Philippine Ferry Operator,” *ABS-CBN News*, December 1, 2010, <http://news.abs-cbn.com/business/12/01/10/aboitiz-oks-sale-shipping-unit-negros-navigation>.

concerns, called on China to turn over control of NGCP to Filipinos.¹⁸⁸ Likewise in 2015, Senator Miriam Defensor-Santiago likened SGCC's 40 percent stake in NGCP to an invasion of the Philippine power sector and claimed NGCP had been "infected by a security virus."¹⁸⁹ In response to these concerns, the Aquino government ended the technical involvement of Chinese technicians in NGCP operations. However, Dr. Tom Stern posits that there is "no doubt that Chinese technicians inserted remote control devices and software through the entire Philippines national power grid before they were instructed to leave the country."¹⁹⁰ Despite the end to their technical involvement in NGCP, the State Grid Corporation of China still retains its 40 percent stake in the company.

As previously noted, the proposed deals resulting from the 2016 state visit are difficult to classify; however, it appears, based on language, that there are around eight joint ventures that fit the description of Chinese outward direct investment. Only two of these proposed deals contain any type of detailed information regarding the joint venture. The first is a deal between Suli Cable International Ltd (HK), a subsidiary of Chinese state owned Tianjin Suli Cable Group Ltd, and MVP Global Infrastructure Group for a 3 billion USD cable manufacturing enterprise in which the Chinese firm would own a 70 percent stake.¹⁹¹ The second is a 168 million USD joint venture between Jiangsu Hongqi Seed Company Ltd and Philippine SL Agritech Group for hybrid rice seed production in which the Chinese firm would own a 50 percent stake.¹⁹² Other deals with unspecified terms include joint ventures for hotel development, a banana plantation, a bus

¹⁸⁸ "Roxas Cites Security Issues in Chinese' Control of National Grid," *Rappler News*, September 25, 2012, <http://www.rappler.com/business/13055-roxas-plays-hardball-with-china-over-control,-security-issues-in-ngcp>.

¹⁸⁹ "Infected by Security Virus: Miriam Claims China Intruding into PH Power Industry," *InterAksyon*, February 22, 2015, <http://www.interaksyon.com/article/105554/infected-by-security-virus%E2%80%9393miriam-claims-china-intruding-in-ph-power-industry>.

¹⁹⁰ Tom K. Stern, "Chinese Investments in the Philippines," *Journal of Political Risk* 4, no. 6 (2016), <http://www.jpolrisk.com/chinese-investments-in-the-philippines/>.

¹⁹¹ "Investment Firm, Chinese Company to Put Up High-End Cable Company in PH," *Manila Bulletin*, October 24, 2016, <http://2016.mb.com.ph/2016/10/24/investment-firm-chinese-company-to-put-up-high-end-cable-company-in-ph/>.

¹⁹² Doris Dumlao-Abadilla, "SL Agritech Upbeat on Deal with China Firm," *Philippine Daily Inquirer*, November 2, 2016, <http://business.inquirer.net/218108/sl-agritech-upbeat-on-deal-with-china-firm>.

manufacturing facility, a steel rebar manufacturing facility, and renewable energy development.¹⁹³

There are several key points to take away from this portion of exploratory analysis. First, unlike Chinese investments in other developing economies (especially Africa), the documented Chinese investments in the Philippines have not targeted the acquisition of raw materials, despite the existence of extensive oil, mineral, and rubber reserves in the country. Second, whereas previous investments targeted strategic assets, namely the Philippine power and shipping sectors, the most recent round of proposed investments are much more diverse. This is likely a byproduct of the heightened Philippine sensitivity to Chinese investment resulting from the contentious NGCP, ZTE, and Northrail deals¹⁹⁴ and the increasingly suspicious and critical lens through which the Philippine government and people have viewed Chinese investments ever since. Finally, the sheer lack of documented instances of Chinese firms merging with or acquiring Philippine companies suggests that these types of direct investments are not the main driver of the aggregate figures on Chinese foreign direct investment in the Philippines. Rather, it is likely that the bulk of those aggregate figures result from the reinvestment of retained earnings of small to medium Chinese firms already operating in the Philippines and by small stock investments in public Philippine companies made by Chinese entities like private investors, the China Investment Corporation (CIC), and/or SAFE.¹⁹⁵

C. INTERNATIONAL SERVICE PROVISION

According to the dataset, there has only been one documented instance and two proposed deals involving service provision (excluding construction contracting services) from a Chinese firm in the Philippines. In each of those cases, the service provided was in

¹⁹³ For a complete list of the deals proposed during the 2016 state visit, see Trade Secretary Ramon Lopez's disclosure to the Philippine media at Amy R. Remo, "Itemized List of PH Projects Covered by China's \$15-B Investment Pledges to Duterte," *Philippine Daily Inquirer*, October 23, 2016, <http://business.inquirer.net/217269/itemized-list-ph-projects-covered-chinas-15-b-investment-pledges-duterte>.

¹⁹⁴ The ZTE and Northrail deals are discussed further in the below section on failed transactions, but readers can also find an excellent overview of these two contentious deals in Baviera, "The Domestic Mediations."

¹⁹⁵ Wood and Brown, *China ODI*, 24–27.

the internet and telecommunications sector. The sole successful instance of service provision occurred in February 2012 when Globe Telecom awarded a 700 million USD contract to private Chinese firm Huawei Technologies Co. Ltd and Alcatel-Lucent Shanghai Bell Co. Ltd. The contract, completed in February 2014, entailed modernization of the Globe network to include expanded 3G, 4G, and LTE capability.¹⁹⁶ Likely due to this successful interaction, one of the proposed deals inked during the 2016 state visit is another Globe Telecom contract with an unspecified Chinese firm for further network improvements. The second proposed deal also involves Huawei, which is currently conducting a feasibility study to provide the Bases and Conversion Development Authority (BCDA) with an information technology command center, creation of a government intranet, and digital railway system controls under the Safe City initiative.¹⁹⁷ If the study proves feasible and Huawei is awarded the contract for implementation, this could raise some red flags concerning national security, similar to those noted above concerning Chinese involvement in the power sector. However, unlike the SGCC, Huawei is a private firm with much less direct ties to the Chinese government and CCP, making the assertion of Chinese state control over a Philippine asset relevant to national security much more difficult to infer.

D. CHINESE COMMERCIAL ACTORS: STATE OWNED OR PRIVATE

The vast majority of Chinese economic activity in the Philippines can be traced back to Chinese state owned parent companies. Of the 11 documented cases of successful direct investment, construction, or service provision in the dataset, 10 were executed by subsidiaries of China's SOEs. Huawei Technologies was the only private Chinese firm in the dataset with documented business dealings in the Philippines. These 10 SOEs are among China's most largest and recognized companies and include: State Grid Corporation of China (SGCC), Sinomach, China Three Gorges Corporation (CTG), Export-Import Bank of China (ExIm Bank), China Gezhouba Group (CGGC), China

¹⁹⁶ "Globe Signs \$700M Deal with Huawei, Alcatel-Lucent," *ABS-CBN News*, February 15, 2012, <http://news.abs-cbn.com/business/02/15/12/globe-signs-700m-deal-huawei-alcatel-lucent>.

¹⁹⁷ "BCDA MOUs with China Companies for Big-Ticket Projects," Bases Conversion and Development Authority, October 26, 2016, http://www.bcda.gov.ph/news_articles/show/535.

Energy Engineering (CEEC), Power Construction Corporation of China (PCCC) and China Communications Construction Company (CCCC). Similarly, all five of the failed transactions in our dataset can also be linked back to SOEs: Jinchuan Nonferrous Metals Corporation, Zhuhai Port Holdings Group, ZTE Corporation, Zijin Mining Group, and Sinomach.

China's SOEs are also heavily involved in the numerous deals proposed during the 2016 state visit. Chief among them is the CCCC, which is behind at least six of the proposed deals through a variety of its subsidiaries. The PCCC is also deeply involved with at least four proposed deals, also through subsidiaries. Other SOEs connected to these proposed deals include Sinomach, Tianjin Suli Cable Group, and China Railway Engineering (CREC).

This SOE domination of economic activity in the Philippines is important to note for at least three reasons. First, it conforms to the global norm of state owned enterprises being the primary implementers of and driving force behind China's Going Out strategy. Furthermore, the Philippines case supports the accepted literature on the motivations for these SOEs to expand overseas; namely, the SOEs have widened Chinese access to the Philippine economy, used construction projects as an additional market for Chinese labor, targeted strategic assets in the Philippine power and shipping sectors, and generated more international brand visibility and market dominance as "national champions."

Second, since the SOEs operating in the Philippines are among some of China's largest and centrally controlled SOEs, the executives of those SOEs hold vice-ministerial or department level rank in the CCP. Despite the organizational distance from these executives to operations within the Philippines (through many layers of governmental bureaucracy and parent-subsidiary relationships), the Philippines and many other recipients of China's economic assistance are still leery about this CCP connection.

Finally, several of the SOEs operating in the Philippines have tainted reputations, both internationally and in the Philippines. Of particular note is CCCC, the Chinese firm behind six of the recently proposed investment deals. The CCCC and all of its subsidiaries were blacklisted in 2011 by the World Bank for fraudulent business

practices, and these sanctions were only recently lifted in January 2017.¹⁹⁸ Furthermore, CCCC Dredging Company, a subsidiary of CCCC, is part of two proposed deals to develop ports in Cebu and Davao, Philippines. Yet according to IHS Janes Defense Weekly, CCCC Dredging ships were captured in surveillance photos at one of the artificial islands China is currently building in the Spratly Islands, over which China and the Philippines have an ongoing maritime dispute.¹⁹⁹ The idea of providing business to a Chinese firm that was potentially involved in the most divisive bilateral issue between the Philippines and China should give Filipino lawmakers pause.

E. CHINESE INVESTMENT AND PHILIPPINE DEVELOPMENT PRIORITIES

Central to China's peaceful rise narrative is the alleged claim that China's economic interactions with its Asian neighbors are win-win. One way China has backed up this claim is by disseminating its annual *OFDI Guidebook of Countries for International Investment and Cooperation*, which highlights host country development priorities and incentive programs to guide Chinese economic activity abroad.²⁰⁰ Similarly, China has focused on prioritizing recipient countries' needs in its foreign aid and economic assistance programs,²⁰¹ especially in the infrastructure realm, which other traditional aid agencies have increasingly ignored in favor of social development programs.²⁰² In the case of the Philippines, this claim of win-win engagement does appear true as evidenced by the extent to which Chinese investments and projects have catered to Government of the Philippines (GoPH) national development plans and priorities.

¹⁹⁸ Nikko Dizon, "Chinese Company Banned by World Bank bags PH Infrastructure Project," *Philippine Daily Inquirer*, October 26, 2016, <http://business.inquirer.net/217467/chinese-company-banned-by-world-bank-bags-ph-infrastructure-project>.

¹⁹⁹ Ibid.

²⁰⁰ Sauvants and Chen, "China's Regulatory Framework," 153.

²⁰¹ Charles Wolf Jr., Xiao Wang, and Eric Warner, *China's Foreign Aid and Government Sponsored Investment Activities: Scale, Content, Destinations, and Implications* (Santa Monica, CA: RAND, 2013), xvi.

²⁰² Sabrina Snell, *China's Development Finance: Outbound, Inbound, and Future Trends in Financial Statecraft* (Washington, DC: U.S.-China Economic and Security Review Commission, 2015), 2.

The two GoPH development plans relevant to the entries in our dataset are the *Medium Term Philippine Development Plan 2004–2010*²⁰³ and the *Philippine Development Plan 2011–2016*.²⁰⁴ Cross referencing each instance of Chinese investment, construction, or service provision (whether executed or failed) from 2004–2016 against the development priorities and government initiatives contained in these two plans reveals that 14 of 16 instances catered to the host country’s needs. Of the two that did not, one was the acquisition of Negros Navigation, which contributed nothing by way of development. The other was the 2009 construction of the Mariveles coal-fired power plant, which was discounted because no direct reference to increasing power generation in Luzon could be found in the corresponding national development plan. Similarly, if the deals proposed during the October 2016 state visit can be assumed to correspond with the *Philippine Development Plan 2011–2016*,²⁰⁵ then 22 of the 25 deals can be directly linked to national development priorities and initiatives. The remaining three deals were discounted due to a lack of information.

F. CANCELLED INVESTMENTS AND THEIR IMPLICATIONS

It is commonly assumed that Chinese companies going abroad to acquire natural resources have been sent forth under state direction and with full state support. Yet, two failed acquisitions of mineral resources in the Philippines tell a different story. In 2006, Shanghai Baosteel Group Corporation in collaboration with Jinchuan Nonferrous Metals Corporation began pursuing a 950 million USD joint venture with Philnico Industrial Corporation to reopen the Nonoc Nickel Mine.²⁰⁶ The deal eventually fell through allegedly due to the Chinese government’s concerns over Filipino criticism of its role in the Northrail project, another failed transaction covered below. Later, in 2010 the Zijin Mining Group was close to acquiring Indophil Resources’ 34 percent stake in the Tamapakan Mine, a gold and copper mine in the southern Philippines worth 5.2 billion

²⁰³ National Economic and Development Authority, *Medium-Term Philippine*.

²⁰⁴ National Economic and Development Authority, *Philippine Development Plan*.

²⁰⁵ The proposed deals could also correspond with priorities outlined in the forthcoming *Philippine Development Plan 2017–2022*; however, that publication has not yet been released to the public.

²⁰⁶ “Jinchuan Nonferrous Metals Corporation Plans to Invest \$950m in Nonoc Nickel Project,” China Aid Data, <http://china.aiddata.org/projects/34805?iframe=y>.

USD.²⁰⁷ The deal fell apart in 2010 after Zijin experienced long delays in securing the requisite Chinese provincial government approvals for the investment. In both of these instances, it was the Chinese business entity that initiated cancellation of the project, and it did so because of failures emanating from the central government.

The other three failed investment transactions in our dataset were cancelled by the Philippine business entity, yet still show an unwillingness or inability of the Chinese government to manage the political effects of its (failed) economic engagement. The first and most notorious is ZTE failed bid in 2007 to build a national broadband network in the Philippines using 329 million USD in foreign aid from the ExIm Bank of China. The contract was signed in April 2007, then suspended five months later in September 2007 by then-President Arroyo amid massive allegations of corruption and bribery; it was eventually cancelled in October 2007.²⁰⁸ A Philippine Senate committee investigation into the deal later recommended bringing charges against a number of high ranking Filipino officials including the president, speaker of the House, chair of the Election Commission, secretary of Transportation and Communication, and the National Economic Development Authority secretary.²⁰⁹ Although the scandal was a major domestic black eye, the image of Chinese aid and Chinese firms was also tainted due to ZTE's role in offering bribes to Filipino officials to secure the contract. Subsequent Chinese investments have also been viewed (fairly or not) through this tainted lens, leading to at least two other failed transactions.

One was the January 2007 agreement to allow the Jilin Fuhua Agricultural Science and Technology Group (Fuhua Group) to lease a million hectares of land in the Philippines for hybrid rice, sorghum, and corn production for a period of 25 years. The contract was expected to bring in 3.87 billion USD in investments and was supported through funding by the China Development Bank. The deal received little public interest until the above mentioned ZTE scandal broke, at which point cause-oriented groups

²⁰⁷ Roel Landingin, "China's Zijin Bids A\$545m for Indophil," *Financial Times*, November 30, 2009, <https://www.ft.com/content/9ccb4e88-de34-11de-b8e2-00144feabdc0>.

²⁰⁸ Baviera, "The Domestic Mediations."

²⁰⁹ U.S. Senate, "Senate Committee on Accountability of Public Officers and Investigations," November 2009, www.senate.gov/ph/lisdata/1293411633.pdf.

began calling for greater scrutiny of contracts with China. This prompted Agriculture Secretary Arthur Yap to suspend the contract indefinitely in September 2007, effectively killing the deal.²¹⁰

The second deal indirectly affected by the ZTE scandal was the also infamous and ill-fated Northrail project. The original contract signed in 2004 called for Sinomach (then China National Machinery and Equipment Corporation) to build an 80 kilometer section of railway connecting Manila to two northern provinces using a 500 million USD concessionary loan from the Export-Import Bank of China. The project suffered multiple contractual delays and was plagued by accusations of corruption and overpricing.²¹¹ Owing to the stricter scrutiny with which Chinese investments were viewed after the ZTE scandal, subsequent due diligence reviews found the contract to be highly questionable and disadvantageous to the Filipino people. The contract was eventually cancelled in 2012 and the GoPH was forced to repay the disbursed amount of the concessionary loan amounting to around 184 million USD.²¹²

Taken together, these failed investment transactions suggest that both the Chinese government's role in and control over these commercial activities has been overestimated. If one subscribes to the belief that Chinese mining conglomerates are puppets of the state sent forth to extract natural resources for the vital development of the Chinese economy, then one should also believe that the Chinese government would not let verbal criticism or internal bureaucracy derail substantial investment opportunities. Unless, of course, the Chinese government does not have significant control over these mining companies, nor the bureaucratic ability to clear all internal impediments from their way. Furthermore, if one was extremely cynical regarding China's motives, then the prospect of constructing (and implicitly controlling/monitoring) the Philippine national broadband network and leasing two million hectares of Philippine sovereign land would

²¹⁰ Gemma Bagayaua, "Gov't Leases 1/10th of RP Agricultural Lands to China Firm," *GMA News Online*, October 17, 2007, <http://www.gmanetwork.com/news/story/64800/news/specialreports/newsbreak-gov-t-leases-1-10th-of-rp-agricultural-lands-to-china-firm>.

²¹¹ Baviera, "The Domestic Mediations," 119.

²¹² "PH Renegotiates Northrail Loan with China," *Rappler News*, September 23, 2012, <http://www.rappler.com/business/12938-philippines-renegotiates-a-northrail-loan-with-china>.

have major political and security implications. Yet the Chinese government did little to save the ZTE deal or mitigate its negative effects on the hybrid rice and Northrail projects. Once again, this suggests that either the Chinese government was not behind these commercial transactions, or it did not deem these transactions worth the political capital required to save them.

In summary, there are several important facts to take away from this analysis. First, Chinese investment in the Philippines over the past 15 years has largely consisted of construction contracting (building infrastructure projects) as opposed to ODI or international service provision. This is consistent with the pattern of Chinese investment in developing countries elsewhere in the world. Second, while the instances of ODI have been few, their significance is disproportionately large when considering the targeted companies were the national electric distributor and the largest shipping company in the country. Third, nearly every instance of investment filled a priority gap identified in the various Philippine national development plans, which helps explain why Chinese investment is still sought after despite the recently volatile bilateral relationship between the two countries. Fourth, the instances of failed investment were highly damaging for both countries' reputation and will likely continue to taint the bilateral economic relationship for years to come.

VI. CHINESE INVESTMENTS, GEOPOLITICAL ADVANTAGES, AND CHANNELS FOR INFLUENCE

While the existing literature and previous chapters have focused on the proximate explanations for and benefits accrued from Chinese investment abroad, this chapter uses visual analytic techniques to delve deeper and examine potential second order effects of Chinese investment in the Philippines. To do this we will focus on two aspects of the Chinese investments in our data set: 1) the geospatial location of each investment within the Philippines and 2) the relational (inter-organizational and interpersonal) connections between Chinese and Philippine entities formed as a result of these investments. First we examine the dataset using geospatial analysis in order to answer the sub-research question: Are there any geospatial patterns of Chinese investment in the Philippines that would provide China with a geopolitical or competitive advantage?

A. GEOSPATIAL ANALYSIS

This first map (Figure 4) shows all of the Chinese investments in the Philippines, by type, for which we have geospatial data. Based on this map, we can make four main observations. First, there is a high concentration of Chinese investment projects around the Philippine capital city of Manila. The location of these investments makes sense because of Manila's prominence as the country's industrial and commercial center of gravity. Intuitively, if the Chinese wanted to highlight high-profile investments or make the largest impact with their development projects, placing them in Manila with its large population base is logical. Second, Chinese mining investments are located in the southern regions of Mindanao and Palawan, where the bulk of Philippine mineral reserves are located. Third, Chinese investment in Philippine power generation is concentrated in the Visayas and Mindanao. Both of these regions are underdeveloped relative to Metro-Manila and have been designated as high priority areas for power grid expansion in Philippine economic development plans.²¹³ Fourth, there are proposed port expansion investments located in all of the regional port/hub cities: Manila, Cavite, Cebu,

²¹³ National Economic and Development Authority, *Medium-Term Philippine*.

and Davao. Thus, it appears that the locations of Chinese investments in the Philippines are exactly where one might expect them to be located based on commercial, ecological, and host country development priority factors.

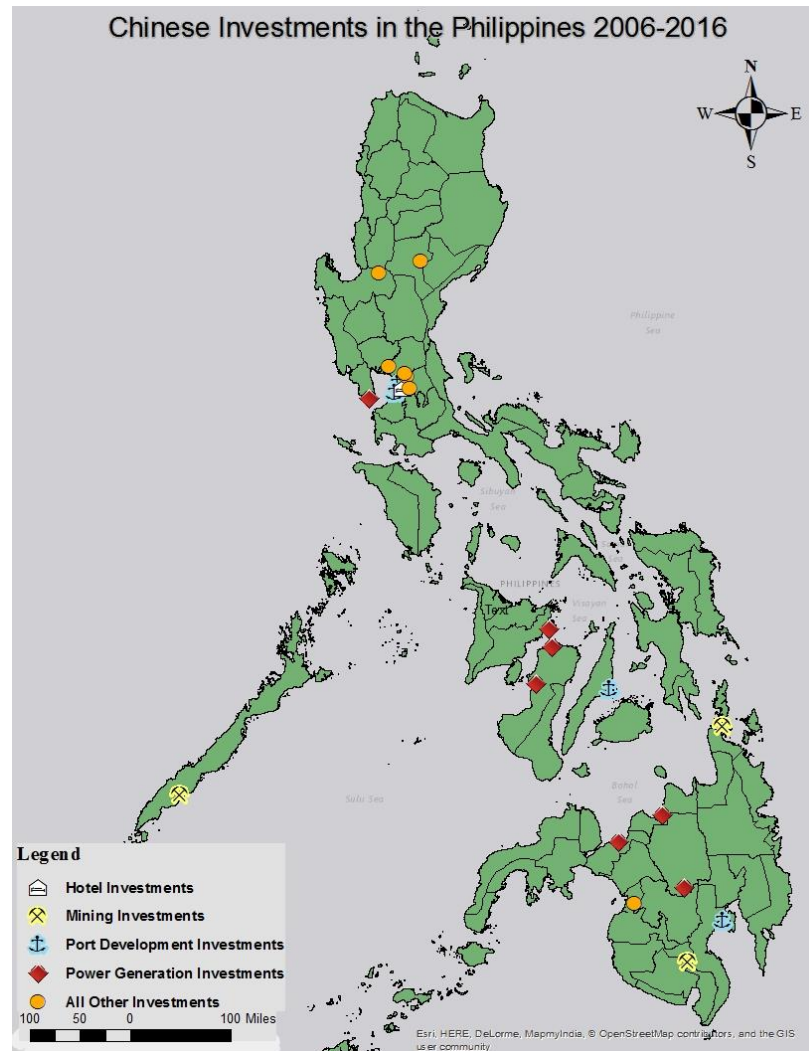


Figure 4. Chinese Investments in the Philippines 2006–2016²¹⁴

This second map (Figure 5) shows the locations of Chinese investments relative to Philippine naval bases and U.S. positions of influence. We define U.S. positions of influence as the American Embassy in Manila, former military bases at Subic Bay and

²¹⁴ Figure 4 is the result of our data compilation and research.

Clark Air Force Base, as well as five future temporary U.S. bases agreed upon in the Enhanced Defense Cooperation Agreement finalized by the Philippine government in 2016. Based on this map, we were able to draw several conclusions regarding the location of Chinese investment projects vis-à-vis Philippine and U.S. centers of influence.

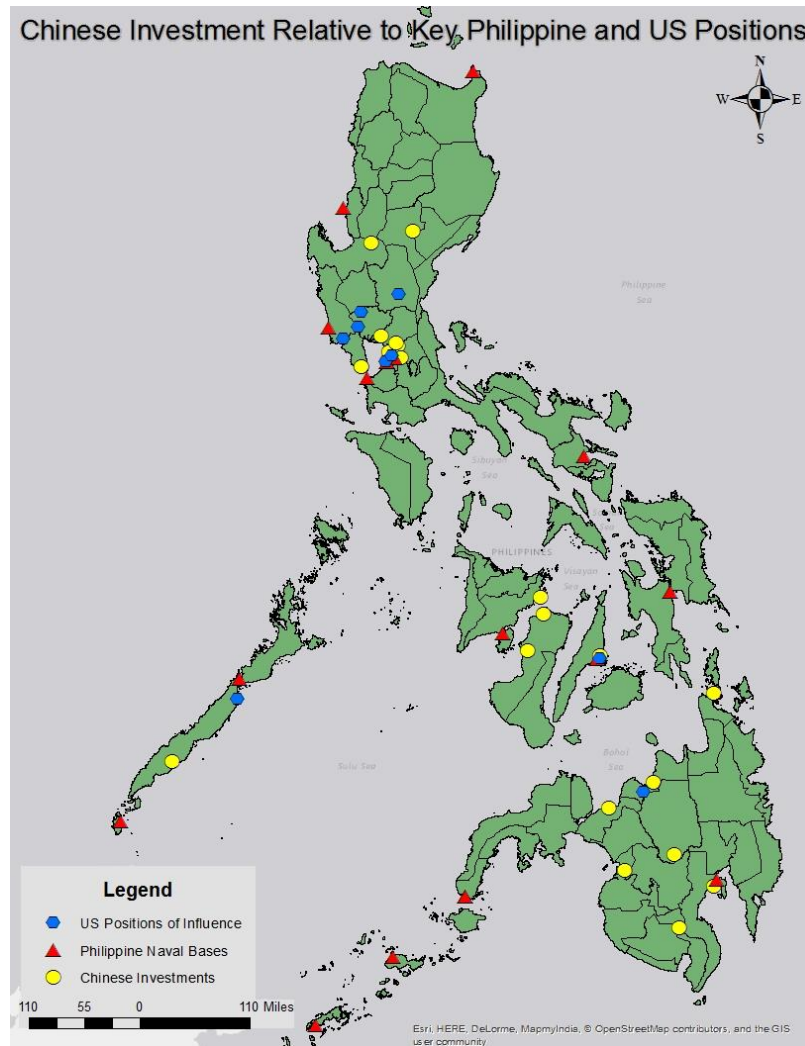


Figure 5. Chinese Investments Relative to Key Philippine and U.S. Positions²¹⁵

²¹⁵ Figure 5 is the result of our data compilation and research.

First, there is some co-location or adjacency between the Chinese investments and Philippine navy and U.S. positions, particularly in Davao, Cebu, and Metro Manila. However, this adjacency is most likely a byproduct of the fact these areas are the primary population and commercial hubs in each region (and therefore attract both investment and military attention), rather than an intentional attempt at co-location. Furthermore, it does not appear that the location of Chinese investments fits any discernable pattern; therefore, it is difficult to conclude that investments are being deliberately placed by the Chinese government for the purpose of mitigating U.S. or Philippine influence in strategic areas of the country. Instead, it appears that investment location is driven by normal economic considerations (e.g., where power generation, natural resources, and key transportation infrastructure are most concentrated). This would suggest natural profit-driven decision-making on the part of Chinese firms. Although we are not testing Wei Qi²¹⁶ theory in this thesis (see Chapter VII, Recommendations), our conclusion of a more naturally occurring or profit-driven Chinese investment strategy appears to contradict the tenants of this theory. In any case, future research in this area is needed in order to draw more definitive conclusions on the geospatial nature of Chinese investments.

Although the previous maps demonstrated that the locations of Chinese investments in the Philippines appear to be governed more by commercial and ecological factors than a discernible and intentional strategy on the part of the Chinese government, this does not mean these investment locations are without significance. When placed in the context of China's recent attempts to gain control over the South China Sea, the locations of the four proposed port development investments suddenly garner more attention. We posit that although these port investment projects likely resulted from a general convergence between China's One Belt One Road plan and the *Philippine Development Plan 2017–2022*, the location of these port investment projects in relation to alternate shipping routes through the South China Sea could provide the Chinese government with an informational benefit.

²¹⁶ David Lai, *Learning from the Stones: A Go Approach to Mastering China's Strategic Concept*, SHI (Carlisle, PA: Strategic Studies Institute, 2004), <https://fas.org/man/eprint/lai.pdf>, 1–34.

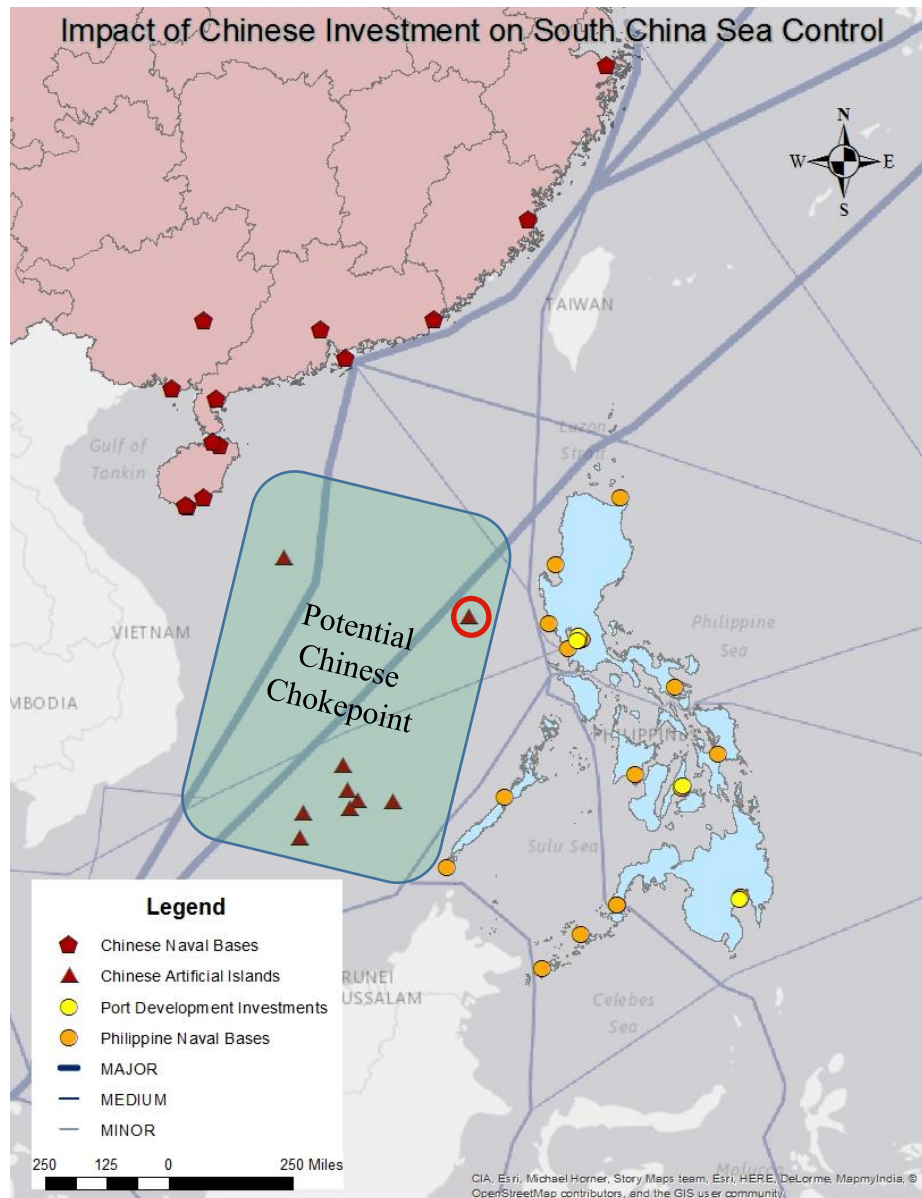


Figure 6. Impact of Chinese Investment on South China Sea Control²¹⁷

Figure 6 illustrates a current theory prevalent among top United States Pacific Command (USPACOM) officials that China is attempting to use its Southern Fleet and construction of militarized artificial islands as a chokepoint in the South China Sea to control the shipping lanes and sea lines of communication that flow through it. Critical to

²¹⁷ Adapted from: ARCGis, “Global Shipping Routes,” April 2013, <http://www.arcgis.com/home/item.html?id=12c0789207e64714b9545ad30fca1633>.

this plan is the Scarborough Shoal (circled in red), which the Chinese forcibly seized from the Philippines in 2012 and have blockaded ever since. While the United States under the Obama administration warned that Chinese dredging operations on the Scarborough Shoal would constitute the crossing of a “red line,” some experts still believe a Chinese attempt to develop the small reef is likely.²¹⁸ Given the locations of China’s People’s Liberation Army (PLA) Navy bases and militarized artificial islands, it is possible to visualize Chinese control over this chokepoint as denoted in green on the map. While the physical components of China’s alleged plan are already underway and nearing completion, the PLA Navy faces another challenge: situational awareness.

It is not enough for the PLA to simply occupy strategic locations in the South China Sea, it also needs an advanced maritime command, control, computers, communication, intelligence, surveillance, and reconnaissance capability in order to effectively monitor activities in the air and sea domains of the South China Sea. Doing so requires building a situational awareness capability over 1.5 million square nautical miles of air and sea space, through which the navies and coast guards of seven regional neighbors operate and thousands of commercial and fishing vessels navigate. To accomplish this monumental task the PLA Navy currently relies on a wide array of sensors, including ground radar installations, satellite reconnaissance, and civilian systems, such as the Automated Identification System and the Beidou system installed on several thousand Chinese fishing vessels. Despite this impressive array of sensors, the Chinese still have numerous gaps in their situational awareness picture, particularly in Philippine sovereign waters and along the minor shipping routes that flow in/around the Philippines and bypass the Chinese chokepoint in the South China Sea.²¹⁹

This is where the four port development investment projects could possibly be of secondary value to the Chinese government. Located in Manila, Sangley Point (Cavite), Cebu, and Davao, these ports form the backbone of the Philippines’ maritime shipping

²¹⁸ *Hotspots along China’s Maritime Periphery: Testimony before the US-China Economic and Security Review Commission* (2017) (Statement of Mira Rapp-Hooper, Senior Fellow, Asia-Pacific Security Program Center for a New American Security).

²¹⁹ “The PLA Navy: New Capabilities and Missions for the 21st Century,” Office of Naval Intelligence, <http://www.oni.navy.mil/Intelligence-Community/China/>, 21–22.

infrastructure and are all located along or near the minor shipping lanes that transit around or through the Philippines (see Figure 7). Furthermore, all four investment projects are located in ports where the Philippine navy also has a naval station or base. Thus, from these four investment project locations one could monitor the movement of Philippine naval assets, U.S. naval assets that conduct port calls there in accordance with the Enhanced Defense Cooperation Agreement (EDCA), as well as the movement of other vessels, military or commercial, along these minor sea lanes outside the immediate control of the Chinese chokepoint.

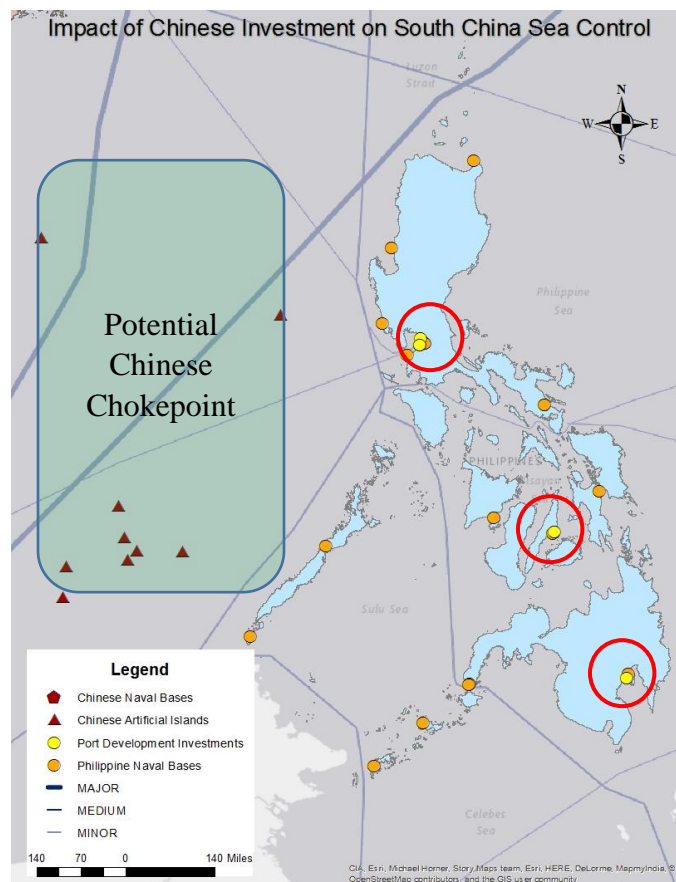


Figure 7. Chinese Port Investments and Impact on South China Sea Control²²⁰

²²⁰ Adapted from: ARCGIS, "Global Shipping Routes," April 2013, <http://www.arcgis.com/home/item.html?id=12c0789207e64714b9545ad30fca1633>.

To be clear, there is absolutely no indication that this is what the Chinese government is doing or plans to do with these port expansion investments; however, based on our analysis, this potentiality is eminently feasible for three reasons. First, the Chinese commercial actors involved in these port investments are the China Harbor Engineering Company and the CCCC Dredging Company, both of which are subsidiaries of the China Communications Construction Company (CCCC), one of China's state owned national champions. As noted in Chapter IV, the CCP has a path for influence over these SOEs via their company-internal party committees. Furthermore, as noted in Chapter V, the CCCC Dredging Company was captured in satellite photos conducting dredging operations at one of China's artificial islands in the Spratlys,²²¹ meaning there is a precedent for the Chinese state directing the commercial activities of this SOE. Second, the Philippine companies working with China on three of the four port investments are all subsidiaries of a single company, R-II Construction Group, which is completely owned by Reghis M. Romero II, who will be shown to be a likely candidate for Chinese ally cultivation in the next section. Finally, as noted in Chapter V, the EXIM Bank of China owns a controlling stake in 2GO Group, one of the largest shipping and ferry operators in the Philippines, via a string of subsidiaries. This provides China with another potential commercial actor that it can use to operate out of these same ports for monitoring and information collection.

B. RELATIONAL ANALYSIS

We now pivot to our relational analysis in an effort to answer the following sub-question: do the personal and/or institutional linkages that arise from Chinese investment in the Philippines provide channels for Chinese influence on Philippine decision-making? As noted in our methodology, we attempt to operationalize a theory by Sino-Philippine scholar Aileen Baviera, who posited that Chinese economic power translates to influence via "successful cultivation of allies among members of the Philippine political elite with whom it has shared preferences."²²² To do this, we look for Philippine commercial actors

²²¹ Dizon, "Chinese Company Banned."

²²² Baviera, "The Domestic Mediations," 127.

that are highly connected or deeply embedded within the social space created by these investments. We begin the analysis with a topographical description of that social space as defined by the one-mode organizational social network outlined in Chapter II.

Topographic analysis consists of a set of metrics that, among many other things, allows analysts to examine how dense/sparse and centralized/decentralized a given social network is. Topographical metrics for our social network of Philippine and Chinese organizations are provided in Table 1.

Table 1. Network Topography Metric Scores²²³

Size	Density	Average Degree Centrality	Global Clustering Coefficient	Degree Centralization
147	0.021	3.075	0.545	3.45%

The density score (.021) provides the ratio of actual ties to potential ties among actors in the network meaning that only 2.1 percent of all potential ties are present in the network. The average degree centrality score (3.075) is the sum of each actor's degree centrality divided by the total number of actors in the network (147) and can provide a second way of estimating network density/sparseness. Finally, the global clustering coefficient (0.545) is simply an average of each actor's local clustering coefficient score described in Chapter II. Together, these three metrics indicate that this network tends toward the sparse end of the spectrum, which makes sense given that the network is built around 41 separate instances of investment spread across a multitude of industries; this decreases the likelihood of a densely interconnected network. Finally, the degree centralization score (3.45 percent) can help capture how centralized or hierarchical a given network might be. In general, the higher the degree centralization score, the more likely that a single actor has a high degree centrality while the rest of the actors do not, which indicates that said actor might be at the top of the network hierarchy. In this case, a

²²³ Values in Table 1 were generated using the UCINET software suite. Steve Borgatti, Martin Everett, and Lin Freeman, Ucinet 6 for Windows: Software for Social Network Analysis (Harvard, MA: Analytic Technologies, 2002).

degree centralization score of 3.45 percent is quite low indicating that this network is very decentralized and not hierarchical. Once again, this result makes sense because the actors in this network are independent organizational entities from two different countries making the likelihood that they all fall into a single hierarchy extremely unlikely.

As a first attempt to look for highly connected Philippine entities that might be candidates for Chinese ally cultivation, we used a simple degree centrality metric. This metric counts the total number of ties that a given actor has within the network. Figure 8 depicts the social network with Chinese entities colored in red and Philippine entities in green, and nodes sized by degree centrality score. Table 2 shows the top five highest scoring actors within the network, and Table 3 shows specifically the top seven highest scoring Philippine entities within the network.

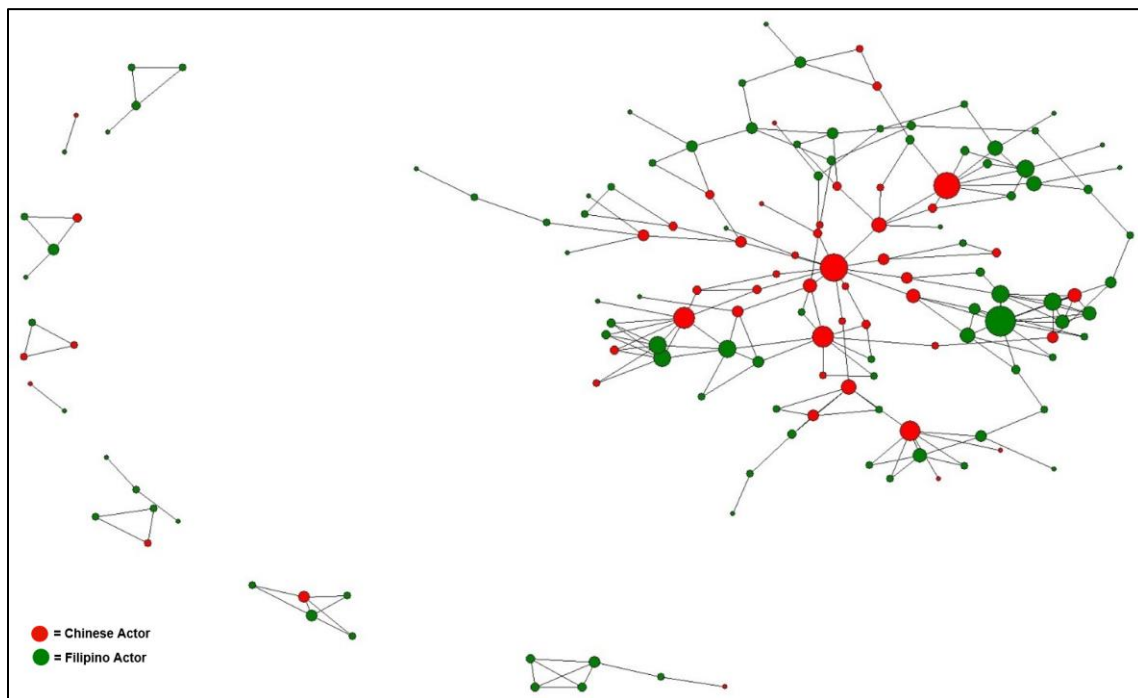


Figure 8. Investment Network Sized by Degree Centrality²²⁴

²²⁴ Visualization in Figure 8 was generated using the UCINET software suite. Steve Borgatti, Martin Everett, and Lin Freeman, Ucinet 6 for Windows: Software for Social Network Analysis (Harvard, MA: Analytic Technologies, 2002).

Table 2. Top Five Investment Network Actors by Degree Centrality Score²²⁵

Actor Name	Degree Centrality Score
National Grid Corporation of the Philippines (Philippine)	13
State-Owned Assets Supervision and Administration Commission (Chinese)	12
China Harbour Engineering Co. Ltd (Chinese)	11
Export-Import Bank of China (Chinese)	9
China Development Bank (Chinese)	9

Table 3. Top Seven Philippine Investment Network Actors by Degree Centrality Score²²⁶

Philippine Actor Name	Degree Centrality Score
National Grid Corporation of the Philippines	13
Global Ferronickel Holdings Inc. (FNI)	7
2GO Group Inc.	7
R-II Construction Group	7
Department of Agriculture	7
SL Agritech Corporation	7
Sterling Paper Group	7

In examining the investment network visualization, one of the first things that jumps out is the large red node in the center of the main component, from which many other red nodes emanate. That node is the State-Owned Assets Supervision and

²²⁵ Values in Table 2 were generated using the UCINET software suite.

²²⁶ Values in Table 3 were generated using the UCINET software suite.

Administration Commission (SASAC), which is the government entity that owns and oversees China's SOEs, and it is not surprising that it shows up in the center of this network since most of the instances of investment in our dataset were conducted by Chinese SOEs. Likewise the other high scoring Chinese entities in Table 2 also make sense. The EXIM Bank and China Development Bank both provide funding for many of the investment projects and thus have many connections. We also see that China Harbor Engineering Company (CHEC) is the most highly connected Chinese SOE in our network owing to the fact that it landed a large number of investment deals during President Duterte's state visit to China in 2016. However, we are primarily concerned with the green nodes in the visualization, which represent Philippine entities and tend towards the outer edges of the network.

There are three actors listed in Table 3 worth highlighting for their potential as pathways for Chinese influence. The first is the National Grid Corporation of the Philippines, which, as noted in Chapter V, is 40 percent owned by the State Grid Corporation of China and is also the most highly connected actor in this network. The second is 2GO Group Inc., which was the second instance of Chinese acquisition of a Philippine company in our dataset. As noted in Chapter V, the EXIM Bank of China owns a controlling stake in 2GO Group via several intermediary layers. It should not be surprising that the two Philippine companies in which China has an ownership stake are also two of the most highly connected actors in a network composed of Chinese and Philippine commercial organizations. Both companies have a relationship based on mutual benefit with their Chinese owners making it highly likely that they are counted by the Chinese as cultivated allies within the Philippine economy. The third actor worth highlighting is R-II Construction Group, which is tied for the second most highly connected Philippine entity. This is the same R-II Construction Group that was mentioned in the above geospatial analysis for being the Philippine partner on three of the four Chinese port investment projects.

The second metric we used for identifying highly embedded Philippine entities that might be considered cultivated allies was local clustering coefficient, as described in the methodology section. Figure 9 shows the investment network colored by nationality

(Chinese = red, Philippine = green) with the highest scoring actors, by clustering coefficient, circled in black. Table 4 provides the raw clustering coefficient scores for these actors.

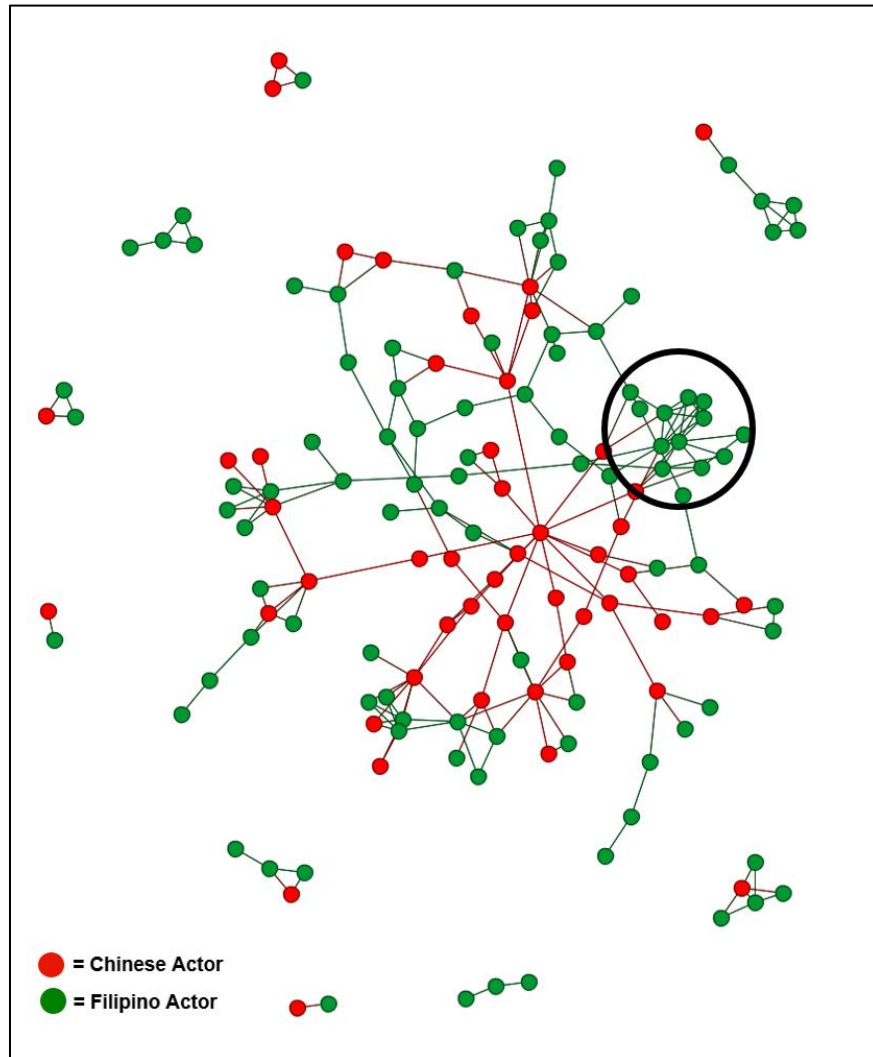


Figure 9. Highly Embedded Philippine Entities within the Investment Network²²⁷

²²⁷ Visualization in Figure 9 was generated using the UCINET software suite.

Table 4. Highly Embedded Philippine Entities by Clustering Coefficient²²⁸

Philippine Actor	Clustering Coefficient Score	nPairs²²⁹
Negros Navigation Company Inc.	1	10
Federation of Filipino-Chinese Chambers of Commerce and Industry Inc. (FFCCCII)	1	10
Calaca High Power Corp.	1	6
Philippine Chamber of Commerce and Industry (PCCI)	1	10
Monte Oro Grid Resources Corporation	0.6	10
Global Ferronickel Holdings Inc. (FNI)	0.571429	21
2GO Group Inc.	0.571429	21

In examining these results, one of the first things to note is that all of these Philippine actors form a tightly clustered group within the network, despite being extremely diverse in their organizational functions. This tight clustering is representative of the degree of embeddedness that we sought to find within the investment network. When combined with some of our earlier analysis, the results also make intuitive sense. Negros Navigation is the Philippine company that the EXIM Bank of China bought a controlling stake in before changing the business name to 2GO Group, which is also on the list. Likewise, Calaca High Power and Monte Oro Grid Resource Company are the two Philippine entities that owned the remaining 60 percent stock (30 percent each) of the National Grid Corporation of the Philippines after the State Grid Corporation of China acquired the other 40 percent. Finally, the FFCCCII and PCCI are both non-governmental organizations of which the owners of many of these Philippine companies are members. Furthermore, these two organizations helped to facilitate the large business delegation

²²⁸ Values in Table 4 were generated using the UCINET software suite.

²²⁹ nPairs refers to the number of alters in a given actor's ego network. Since the clustering coefficient metric uses the number of potential ties within the alter network as part its calculation, the number of nPairs is extremely important. Actors with a low number of nPairs may still achieve a large clustering coefficient score, but they would not meet our definition of embeddedness which we are using this metric to capture. For that reason, only actors with six or more nPairs were included in our list of highest clustering coefficient scores.

that accompanied President Duterte to China in 2016 and resulted in 25 of our 41 instances of investment.

To summarize, our geospatial and social network analysis led to the identification of several Philippine entities that could provide China with potential pathways for translating its economic might into influence within the Philippines. Based on the geospatial and degree centrality analysis, we identified the R-II Construction Group. Based on the degree centrality and clustering coefficient analysis, we identified the National Grid Corporation of the Philippines and 2GO Group. Finally, based on the clustering coefficient analysis, we also identified the Federation of Filipino-Chinese Chambers of Commerce and Industry Inc. (FFCCCII) and Philippine Chamber of Commerce and Industry (PCCI). We will now utilize link analysis to highlight some of the Filipino individuals associated with these entities who embody Baviera's definition of a cultivated ally based on relationships of informal patronage and mutual benefit.²³⁰

The first and most highly likely candidate for a potential Chinese ally is Dr. Francis Chua. Figure 10 depicts Dr. Chua's ego network consisting of all the people, companies, organizations, and events with or to which he is affiliated. There are several key points to note about this diagram. First, Dr. Chua has been directly involved in three instances of Chinese investment (circled in red). He is on the board of directors at the National Grid Corporation of the Philippines, which the State Grid Corporation of China bought a 40 percent controlling stake in. He is also the independent director and chairman of the board at 2GO Group, which the EXIM Bank of China also owns a controlling share in via the intermediary layers depicted in the diagram. Finally, he is also on the board of directors at Global Ferronickel Holdings, which is working a joint venture with Baiyin Nonferrous Group to build a stainless steel plant in the Philippines. Second, Dr. Chua also sits on the board of directors at both the FFCCCII and PCCI, which were both identified as being deeply embedded in our social network analysis. Finally, Dr. Chua has extensive contacts within the Philippine government having once been a special advisor to President Arroyo, a special envoy for trade and investment on behalf of the

²³⁰ Baviera, "The Domestic Mediations."

Department of Foreign Affairs, and a special advisor on economic affairs to the House of Representatives.

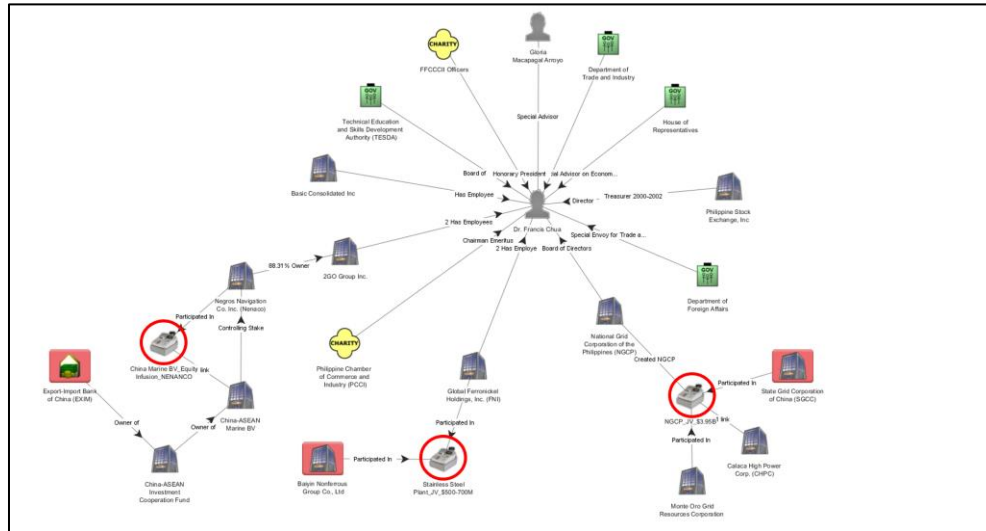


Figure 10. Link Diagram of Dr. Francis Chua's Affiliations²³¹

A second highly connected and embedded Filipino individual with potential for Chinese cooption/exploitation is Reghis Romero II. Figure 11 depicts Romero's ego network consisting of all the people, companies, organizations, and events with or to which he is affiliated. Romero is the owner of the R-II construction group, which, through two of its subsidiaries, is involved in three instances of investment with Chinese SOEs (circled in red). All three of these investments are port reclamation and expansion projects located in Manila, Cebu, and Davao. Romero's R-II Group was identified in both our geospatial and social network analysis as an organization of interest. Romero has also scored points with President Duterte by implementing his Davao port reclamation project, a priority of Duterte's while he was the Mayor of Davao, and has been labeled as a "developer/contractor to watch" under Duterte's administration.²³²

²³¹ Visualization in Figure 10 was generated using author's research and the Palantir Gotham software suite (requires paid subscription), available at <https://www.palantir.com/palantir-gotham/>

²³² Victor C. Augustin, “Reghis Romero Shuts Out Ramon Ang, Ricky Razon, from Duterte’s 1st PPP Project,” *The Philippine Star*, June 24, 2016.

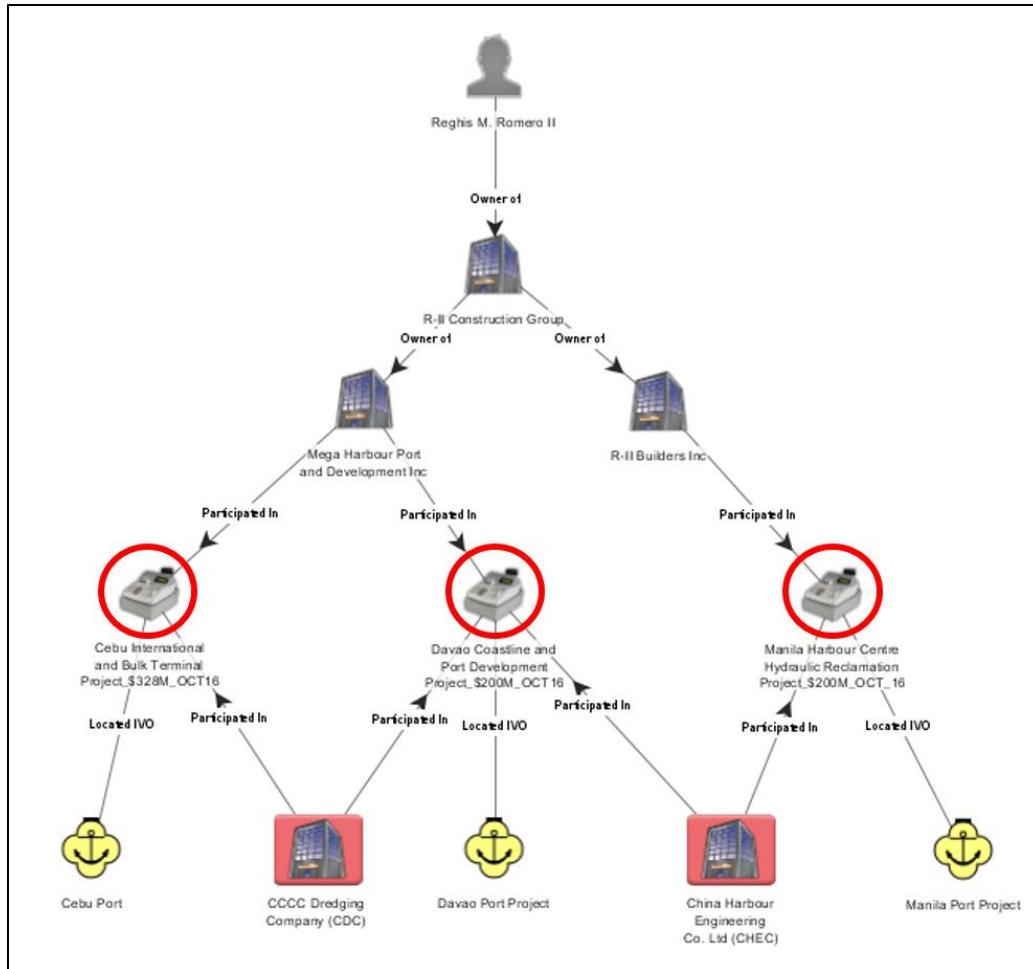


Figure 11. Link Diagram of Reghis Romero's Affiliations²³³

A third and final Filipino individual worth noting is Jaime Augusto Zobel de Ayala. Figure 12 depicts Ayala's ego network consisting of all the people, companies, organizations, and events with or to which he is affiliated. Ayala is one of the richest people in the Philippines and is the patriarch of the Zobel de Ayala family, which now controls the Ayala Corporation after his retirement in 2006.²³⁴ The Ayala Corporation, through several layers of subsidiaries, can be traced to four instances of Chinese investment (circled in red) in our dataset. Three of these instances of investment were

²³³ Visualization in Figure 11 was generated using author's research and the Palantir Gotham software suite (requires paid subscription), available at <https://www.palantir.com/palantir-gotham/>

²³⁴ "Profile: Jamie Zobel de Ayala and Family," *Forbes*, April 4, 2017, <https://www.forbes.com/profile/jaime-zobel-de-ayala/>.

power generation projects that were financed and build by the Chinese then later acquired by the Ayala Corporation through its subsidiary AC Energy Holdings. The fourth instance involved Globe Telecom, which Ayala Corporation owns 31 percent of, partnering with Huawei Technologies to upgrade its LTE network in 2012. Unlike the previous two cases, the Ayala Corporation did not show up in our geospatial or social network analysis. This is likely because the Ayala Corporation was a subsequent beneficiary of these instances of investment rather than a central player in them. However, it is precisely this beneficiary relationship that makes the Ayala Corporation and the Zobel de Ayala family a potential path for Chinese influence. Because Ayala has benefited handsomely in the past from Chinese investments into the power generation sector, Chinese commercial actors could use the prospect of more future investments as a point of leverage in return for some of the Zobel de Ayala family's political capital generated by its immense wealth.

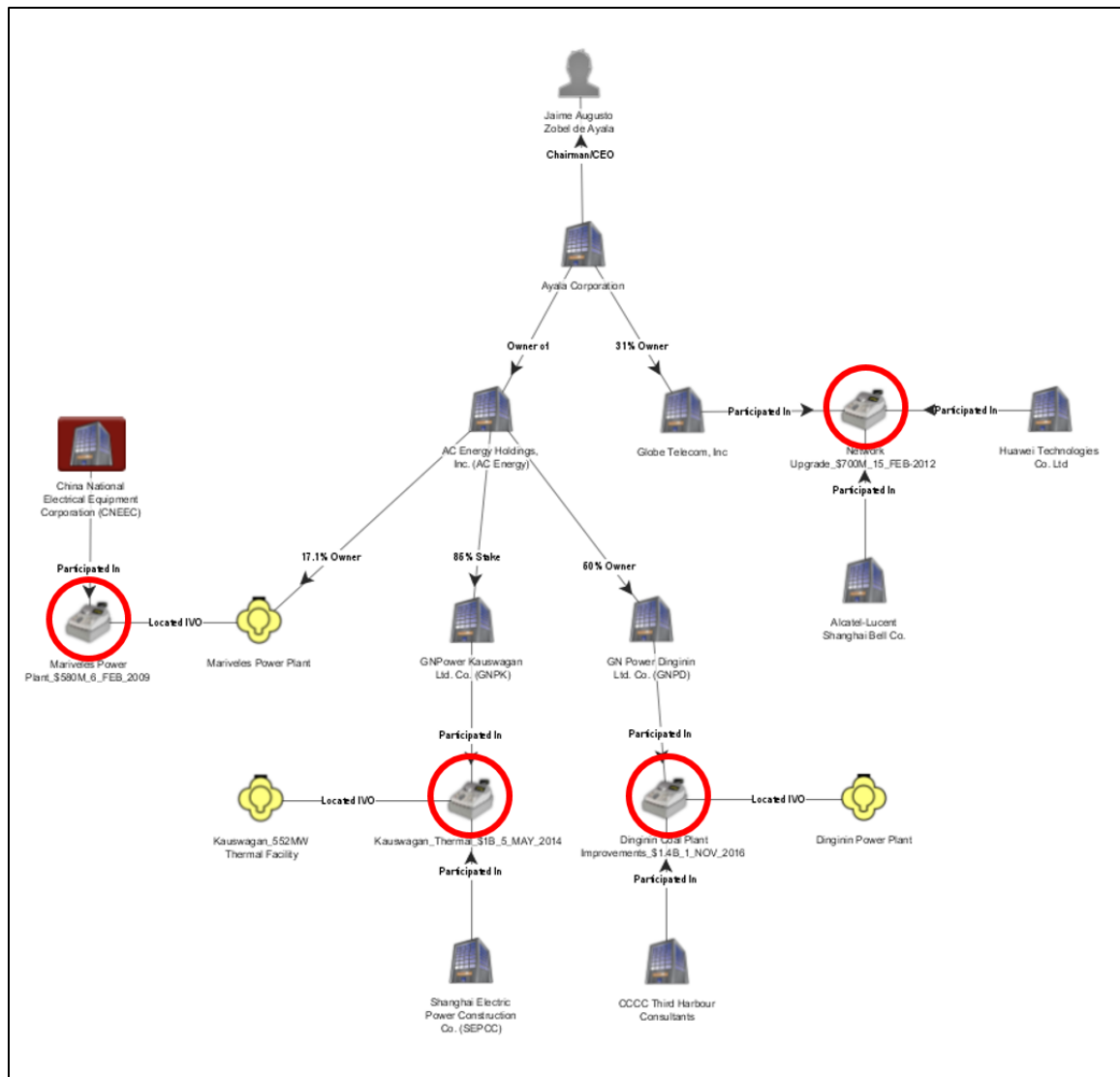


Figure 12. Link Diagram of the Ayala Corporation's Affiliations²³⁵

This chapter focused on the second order effects generated by Chinese investment that are identifiable only by dropping the level of analysis to the micro or instance level. In particular, we focused on the geospatial and relational aspects of China's investment in the Philippines with an eye toward identifying potential geopolitical advantages and inter-organizational paths of influence generated by these investments. Our geospatial

²³⁵ Visualization in Figure 12 was generated using author's research and the Palantir Gotham software suite (requires paid subscription), available at <https://www.palantir.com/palantir-gotham/>

analysis highlighted the possibility that Chinese investments into Philippine ports could be used as a platform for information collection that would fill a critical gap in China's situational awareness in the South China Sea. Our social network analysis identified the following highly connected and deeply embedded Philippine entities as possible conduits for Chinese influence: R-II Building Group, National Grid Corporation of the Philippines, 2Go Group, the Federation of Filipino-Chinese Chambers of Commerce and Industry Inc., and the Philippine Chamber of Commerce and Industry. Finally, our link analysis built upon these results and identified Dr. Francis Chua, Reghis Romero II, and the Zobel de Ayala family as individuals with ties of mutual benefit and informal patronage to Chinese commercial actors who could potentially be cultivated as allies within the Philippines. These findings suggest there is more to China's international investments than is currently explained by the literature on Chinese economic statecraft and possibly warrant a new way of looking at China's global investment activity.

VII. CONCLUSION, IMPLICATIONS, AND RECOMMENDATIONS

To reduce some of the uncertainty surrounding the topic of Chinese grand strategy, this thesis has presents a comprehensive overview of China's investment in the Philippines over the past decade. It examines the role commercial actors play in supporting Chinese foreign policy objectives and focuses on the bilateral context in which these actors operate. Divided into five major research questions, this thesis identifies China's strategic approach to the Philippines, the unique characteristics of Chinese international investment that facilitate state control and direction, and the patterns of Chinese investment in the Philippines since 2006. Then, using visual analytic techniques heretofore unapplied in the analysis of Chinese international investment, this thesis established that geospatial, social network, and link analysis of Chinese investments could reveal previously unseen geopolitical advantages and interpersonal pathways for influence within the recipient country.

Based on the analysis found in Chapter III, China is actively working to increase its economic and political influence in the Philippines. Its strategy toward the Philippines is mostly consistent with the strategy Beijing applies to the Southeast Asia region as a whole—it aggressively pursues its territorial interests in the South China Sea while also broadcasting clear signals of goodwill and cooperation through pledges of joint development and mutual prosperity. Overall, China has applied tactics to punish Philippine resistance to Chinese actions in the South China Sea as evidenced by the pressure applied during the Aquino III administration. When Philippine administrations adopted pro-Chinese foreign policy positions, Beijing has offered economic benefits under the Peaceful Development and Striving for Achievement policies. This understanding of China's approach to its bilateral relationship with the Philippines provided a context within which we could then make sense of and interpret the investment activities of its commercial actors.

We then explored the question of who is driving Chinese foreign investment activity: the Chinese state or the Chinese company? Chapter IV explains that the answer

is a little of both. While it would be wrong to assume the CCP Politburo is behind every takeover of a foreign company, it would be equally wrong to assume Chinese companies are exhibiting purely profit-seeking behavior in a laissez-faire political economy. Rather it should be acknowledged that the PRC has policies in place that allow it to motivate, direct, and underwrite foreign investment by its commercial actors. Beijing has built a CCP presence into the organizational structure of its SOEs and is able to control the activities of its commercial actors when there is unity among the various CCP bureaucracies. We suggest this requires viewing each foreign investment from two points of view—that of the Chinese commercial actor and that of the Chinese state to grasp the full economic and geopolitical effects of a given investment.

The current scope of Chinese ODI and development aid in the Philippines is addressed in Chapter V. We found that Chinese investment since 2005 has largely consisted of construction contracting for building infrastructure projects as opposed to ODI or international service provisions. Based on our research, this is mostly consistent with patterns of Chinese investment in other developing countries.²³⁶ While there are few instances of ODI, their significance is disproportionately large when considering the targeted companies were the national electric distributor and the largest shipping company in the Philippines. Significantly, nearly every instance of investment filled a priority gap identified in the various Philippine national development plans helping to explain why Chinese investment is still sought after despite recently volatile bilateral relationship between the two countries. Where investment projects have failed, damage has been done to both countries' reputations—likely straining the Sino-Philippine bilateral economic relationship for years to come.

The final research goal of this thesis was to use visual analytic techniques to delve deeper and examine potential second order effects of Chinese investment in the Philippines. This is covered in Chapter VI. In it, we focus on two aspects of the Chinese investments in our data set—the geospatial location of each investment within the

²³⁶ Scissors, “Record Chinese Outward.”

Philippines and the relational connections between Chinese and Philippine entities formed as a result of these investments.

Based on our analysis, we conclude that it does not appear that the location of Chinese investments fits any discernable geographic pattern. This makes it difficult to determine if investments are being deliberately placed by the Chinese government for the purpose of mitigating U.S. or Philippine influence in strategic areas of the country. Instead, it appears that investment location is driven by normal economic considerations suggesting natural profit-driven decision-making on the part of Chinese firms. However, recognizing China still has numerous gaps in their situational awareness picture, particularly in Philippine sovereign waters, four documented port development investment projects could possibly be of secondary value to the Chinese government. Since these projects are located in ports where the Philippine navy also has a naval station or base, the PRC could monitor the movement of naval assets or the movement of other vessels along the minor sea lanes outside the immediate control of Chinese chokepoints in the South China Sea. These additional sensors could provide China with a strategic advantage in the region by expanding its situational awareness beyond its South China Sea facilities.

Our social network analysis recognized several highly connected and deeply embedded Philippine entities as possible conduits for Chinese influence. Link analysis built on these findings and identifies individuals with ties of mutual benefit and informal patronage to Chinese commercial actors who could be cultivated as allies within the Philippines. In sum, applying these visual analytic techniques to our data set intimated subtle undertones to China's international investments possibly requiring that we reframe how we view China's international investment activity in the future.

A. IMPLICATIONS AND DISCUSSION

The findings generated by this line of research lead to two main implications. First, China's international investments provide benefits and opportunities undetected by the macroeconomic, quantitative, and regional analytic techniques currently being applied in the fields of Chinese foreign policy and economic statecraft research. These

benefits and opportunities might be considered secondary effects, but they will continue to remain undetected until scholars adjust their level of analysis and begin examining these investments at the micro or instance level. Second, the benefits and opportunities created by these investments bear eerie resemblance to the conditions U.S. special operations forces (SOF) attempt to achieve through preparation of the environment activities in the shaping phase of an operation. This suggests that U.S. defense planners should potentially change the way they frame, or view, Chinese investment activities within their geographic areas of interest by categorizing them as an economic form of preparation of the environment.

Scholarly research into China's global investment activity up to this point has done an effective job of describing where, how, and why the Chinese state and its commercial actors invest. However, because this research is largely based on monetary figures aggregated annually, by country, and potentially by sector, conclusions drawn from this data are necessarily generalizations and/or oversimplifications. That is not to say that these conclusions are incorrect; rather, they are simply insufficient by themselves because they are only able to provide proximate explanations or answers to these questions. In this way, it is correct to conclude that China's investment in the Philippines represents checkbook diplomacy; investments in the Philippine mining sector are motivated by the pursuit of strategic minerals/resources needed to feed the Chinese industrial economy; and Philippine infrastructure investments represent implementation of China's One Belt One Road strategy. All of these conclusions from the data are correct; yet, all of them provide only a proximate or primary explanation, and in that way, they are insufficient.

Our research shows that there is more to these investments than the proximate explanations offered above. Whether these secondary effects of the investments are intentional or not, or will be exploited or not, is largely irrelevant. The fact remains that China's investments create geographic footholds and platforms within the recipient country and establish organizational ties between Chinese and host country commercial actors that are potentially more important than whatever proximate explanation is attached to the investment. Until the field of research into Chinese international

investment moves beyond analyses at the aggregate level and into analytic treatments at the individual investment and actor level, our understanding of what China is attempting to achieve through these investments will remain incomplete.

While scholars wrestle with the above implication, U.S. defense planners should be more concerned by a second implication generated by our findings, specifically that the benefits and opportunities accrued to China by virtue of its investment activities in the Philippines effectively mirror the objectives sought by our U.S. SOF preparation of the environment (PE) activities. According to Joint Publication 3-05, preparation of the environment is defined as “an umbrella term for operations and activities conducted by selectively trained special operations forces to develop an environment for potential future special operations.”²³⁷ Without delving beyond the unclassified realm, we simply assert that these activities have two interconnected objectives: 1) establishing access to, or a presence in, a given geographic area, and 2) cultivating inter-organizational and interpersonal relationships that can be called upon for future purposes. When presented in this light, our findings from the geospatial and relational analysis contained in Chapter VI bear a striking similarity. The port investment projects afford Chinese actors access to strategic areas within the Philippines and platforms from which to establish an enduring monitoring presence in the area. Likewise, the ties flowing from the Chinese Communist Party through its state owned commercial actors to the highly connected and deeply embedded Philippine entities represent cultivated relationships that could be potentially leveraged for a future purpose. In the case of the Philippines, China was able to achieve both of these PE objectives, access, and relationships, using its economic actors rather than its military forces.

As U.S. defense planners trained to assume and plan for worst-case contingencies, the above proposition should be both eye-opening and worrisome. Especially when placed within the context of a 2016 research report generated by the U.S.-Economic and Security Review Commission in which the authors assert that China is pursuing “non-military operations prior to conflict” to counter U.S. forward presence in the Asia

²³⁷ Joint Chiefs of Staff, *Special Operations* (Joint Publication 3-05) (Washington, DC: Joint Chiefs of Staff, 2014), GL-9.

Pacific.²³⁸ These non-military operations include using “economic engagement and economic coercion to attempt to shape the behavior of U.S. allies and partners Beijing considers instrumental to supporting U.S. presence and force projection capability.”²³⁹ What the author is effectively describing here is economic (non-military) shaping operations designed to affect the cost-benefit calculus of U.S. allies like the Philippines. Under such a strategy, it would be extremely valuable for China to have a foothold or platform within the Philippines from which to monitor U.S. naval movements and cultivated relationships with influential Filipinos that can be leveraged to shape the internal debate over issues like the EDCA which provides the United States with a temporary military presence in the Philippines. China may not have the diplomatic relationships and military capability to conduct shaping operations and preparation of the environment like the United States, but it does have an abundance of commercial actors operating globally that can achieve similar objectives. U.S. defense planners need to be aware of this capability and begin accounting for it in their collection plans.

B. RECOMMENDATIONS

Based upon these insights, we recommend the following two courses of action. First, micro level research into Chinese international investment activity using visual analytic techniques should be expanded beyond the scope of the Philippines. The first and most logical step would be to replicate this research on a regional level beginning with Southeast Asia and focusing on the ASEAN countries. From there, it can be combined with other regional level analyses to create a common, global operating picture of China’s economic preparation of the environment activities. Based upon their regional orientation and organizational capacity, the U.S. geographic combatant commands are ideal candidates to sponsor and/or spearhead this continued research.

Scaling this up to a regional or even global level analysis would also allow for analytic treatments not possible in our study. One such treatment is using the game of Wei Qi as a lens for interpreting the geographic locations of Chinese investments. Known

²³⁸ Bergerson, *China’s Efforts*, 3.

²³⁹ Ibid.

internationally as Go, Wei Qi is an ancient Chinese game that requires a player to utilize strategic encirclement to defeat an opponent. As a game, it embodies many of the teachings that underpin Chinese strategic thought, namely the 36 strategems, Sun Tzu's *Art of War*, and the concept of Shi.²⁴⁰ Using it as a lens for analysis forces one to adopt a Chinese point of view and interpret what one sees in the context of these strategic ideas. By applying this lens to future, regional analyses of Chinese investment activity, it might be possible to predict where China will attempt to carve out a sphere of influence or mitigate a U.S. capability via strategic encirclement.

Second, we recommend that U.S. Civil Affairs forces deployed around the world begin capturing data on Chinese investment activities in their host countries as part of their civil information management (CIM) key task. As military practitioners given the primary task of mapping and understanding the civil domain, Civil Affairs forces are a natural fit for tracking, documenting, and interpreting the effects of Chinese investment activity in the countries in which they are operating. As it is common for Civil Affairs forces to maintain situational awareness on the aid activities of foreign governments in their operating area, this type of collection may already be underway. However, future CIM efforts should be expanded to include not just aid projects but all investments with a focus on documenting the exact geographic locations of such aid and investment, as well as identifying the key actors involved, particularly their connections to the host government. Such data will prove invaluable in conducting the regional analyses recommend above.

C. CONCLUDING THOUGHTS

This line of research was born from the uncertainty with which we, as military professionals, view China's military and economic activities around the globe. To reduce some of that uncertainty, we sought to understand how China was using its primary element of national power, the economic element, against a longtime U.S. ally in the hopes that it would shed some light on China's grand strategy objectives. While those objectives still remain a mystery (as they do to most scholars), our efforts have not been

²⁴⁰ David Lai, "China's Strategic Moves and Counter-Moves," *Parameters* 44, no. 4 (2015): 12–13.

in vain. Our research shows that 1) China has a strategic approach to the Philippines, 2) China's policy framework enables state direction and possibly control over its commercial actors, 3) China's investment in the Philippines is consistent with how it invests in other developing countries, and 4) China's investments generate secondary benefits and opportunities previously unaccounted for in the literature. Our hope is that this thesis serves as a proof of concept, spurring future interest and research into the geospatial and relational aspects of China's global investment activity. In this small way, we have pushed the ball a little further downfield.

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